MARCH 1956

The Mortgage Banker

As they weighed the business prospects of tomorrow at the MBA-NYU Senior Executives Conference. For the story, see page 46

MORTGAGE BANKERS ASSOCIATION OF AMERICA · MBA · ORGANIZED 1914

in this issue — FOR THE FIRST TIME: RELIABLE DATA ON WHAT IT COSTS TO OPERATE A LOAN BUSINESS AND WHERE THE PROFITS ARE

MBA 1956 Calendar

March 12, Mortgage Servicing Clinic, La Salle Hotel, Chicago

March 14, Mortgage Servicing Clinic, Hotel Statler, Washington, D. C.

March 16, Mortgage Servicing Clinic, Andrew Jackson Hotel, Nashville

March 18-20, Southwestern Senior Executives Conference, Southern Methodist University, Dallas

April 5-6, Southeastern Mortgage Clinic, Hotel John Marshall, Richmond

April 7, Board of Governors Meeting, Dinkler-Plaza Hotel, Atlanta

April 9-10, Southern Mortgage Conference, Dinkler-Plaza Hotel, Atlanta

April 30-May 1, Eastern Mortgage Conference, Commodore Hotel, New York

May 10-11, Southwestern Mortgage Clinic, Hilton Hotel, Albuquerque

May 14-15, Western Mortgage Conference, Fairmont Hotel, San Francisco

May 17, Mortgage Servicing Clinic, Olympic Hotel, Seattle

May 18-19, Northwestern Mortgage Clinic, Olympic Hotel, Seattle

June 24-July 7, School of Mortgage Banking, Courses I, II and III, Northwestern University, Chicago

July 16-17, Educators Conference, University of Colorado, Boulder

July 29-August 11, School of Mortgage Banking, Courses I and II, Stanford University, Stanford, California

October 8-11, 43rd Annual Convention, Conrad Hilton Hotel, Chicago

THE POINT OF ORIGIN

for Dr. McKinley's observations was the MBA-NYU Senior Executives Conference, for those of Mr. Wood, the American Finance Association.

The Mortgage Banker

please route to:

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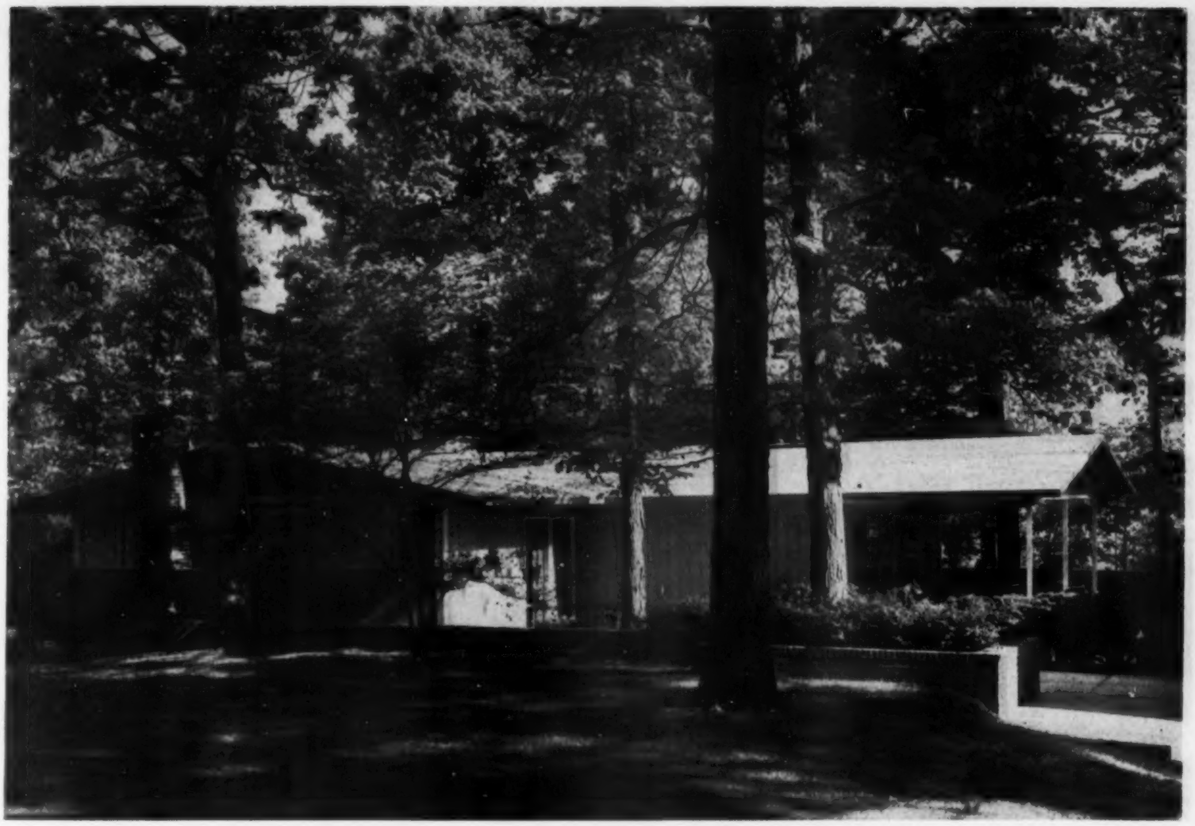

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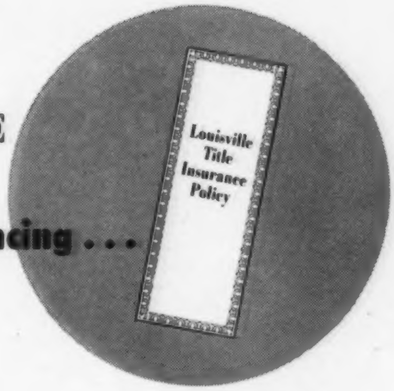

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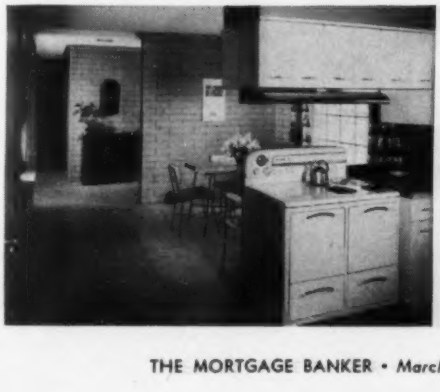

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Home Owners Now 27 Million; FHA Data Show Sound Mortgage Rise

Number of home owners in the United States has increased by 16 million in the last generation, rising from 10.9 million in 1920 to an estimated 27 million last year.

This represents an increase of just under 150 per cent in home ownership, a substantially greater rate of growth than for the total number of homes, owner-occupied and rented combined. The figures show that all occupied dwelling units increased from 23.8 million in 1920 to an estimated 48 million in 1955, a rise of 100 per cent.

The proportion of homes that are owner-occupied has also risen substantially, and represented a new high of 56 per cent of all occupied dwelling units in 1955 as compared with 45.6 per cent in 1920. The most pronounced gains in home ownership have occurred in the period since the end of World War II.

The life companies have long been an important source of mortgage funds for the homeowner, and this has been particularly true in the residential building boom of recent years. Total mortgage holdings of the life companies added up to more than $29 billion at the end of 1955, of which more than half were on one-to-four family homes.

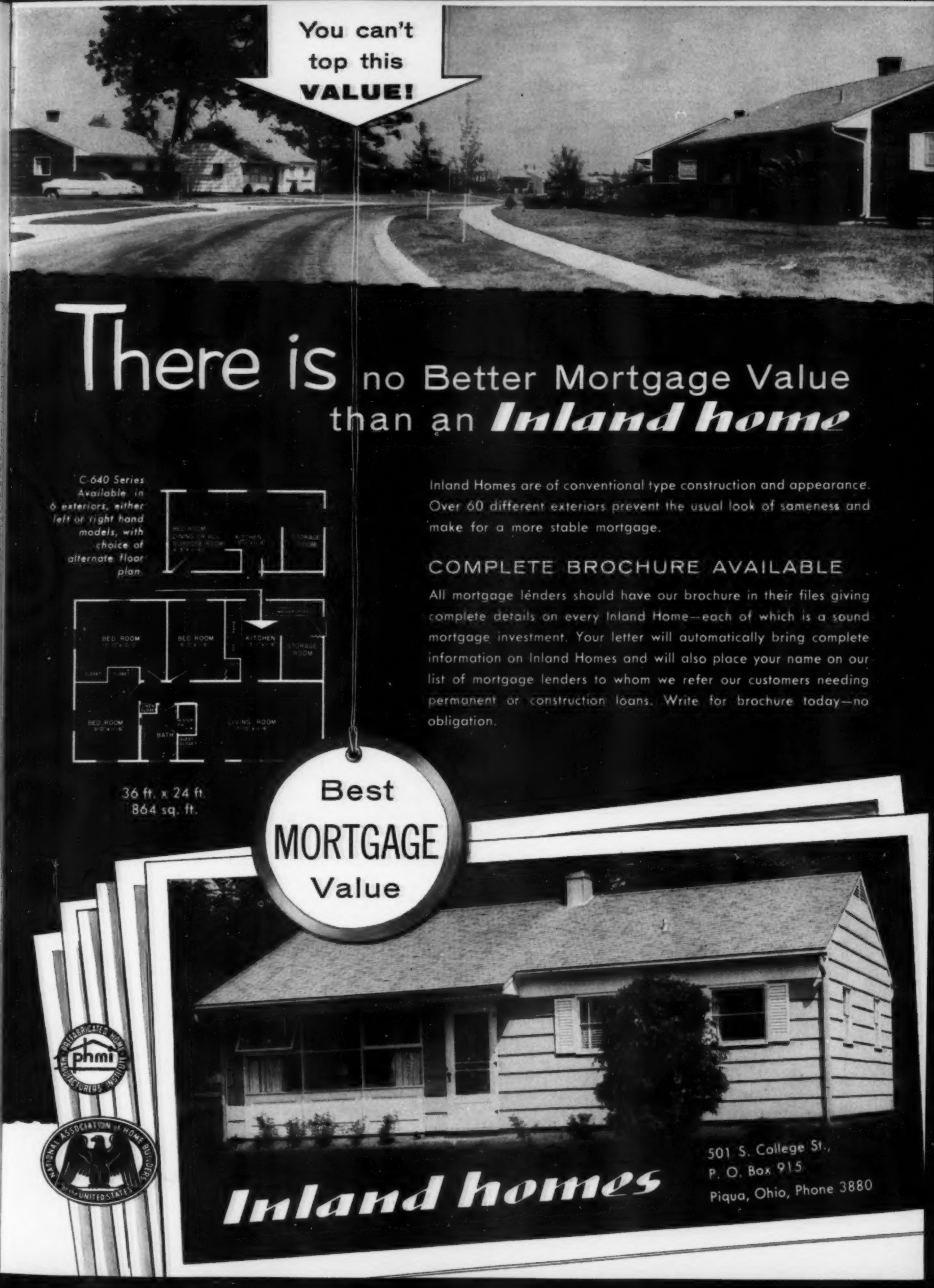
The changing financial aspects in the growth of home ownership in recent years is brought out by FHA in an analysis of transactions under its own mortgage insurance program for the period from 1949 through 1954.

These figures show that the before-tax income of the typical home buyer who acquired an FHA-insured dwelling during the period more than kept pace, percentage-wise, with the rising prices of dwellings, bigger mortgage debts, and higher home running costs. In the case of new one-family homes, for instance, the income of the average buyer increased twice as fast as housing expense for the period.

Such a trend gives a favorable impression with respect to the ability of the buyer to meet the costs of home ownership and the commitments that are involved. There are other factors with a bearing on this, of course, such as the general financial status of the buyer, his over-all debt position, and the demands on his budget.

The FHA mortgage program covered approximately one out of every four new single-family non-farm homes built in the 1949-54 period, as well as hundreds of thousands of existing homes that changed hands during those years.

With respect to purchasers of new one-family homes, which have dominated the residential building of the last decade, the FHA figures show that the typical home buyer's income, before personal taxes, rose from $3,880 in 1949 to $5,139 in 1954, an increase of 32 per cent. As against this, average property values and the



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size of the mortgage each increased by about 25 per cent during the period. Monthly housing expense increased only 16 per cent, and as a result the proportion of income taken by the fixed cost of running a typical new home dropped from about 24 per cent in 1949 to 21 per cent in 1954.

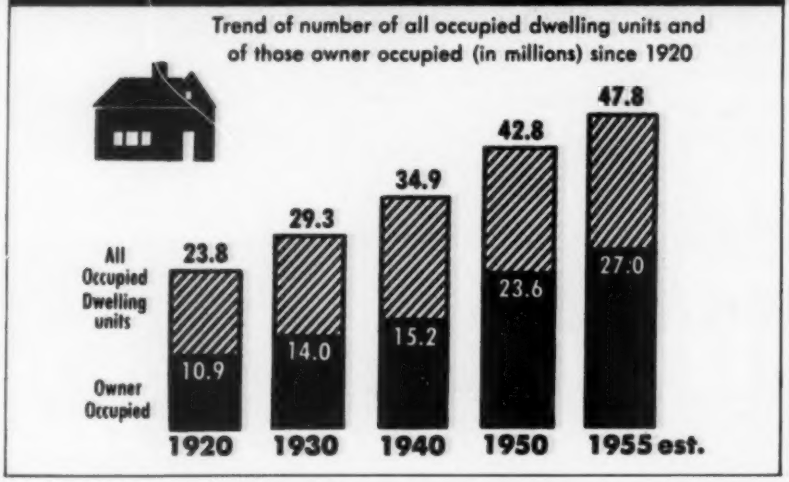
Trends in FHA Deals

The following table gives the trend of the financial characteristics of one-family home mortgage transactions insured by the FHA in the 1949-54 period:

Item	1949	1954	% Rise in Period
NEW HOMES			
Mortgagor's Income	$3,880	$ 5,139	32
Property Value.	8,502	10,678	26
Mortgage amount	7,143	8,862	24
Loan-value ratio	87.3	85.3	
Mortgage term (yrs.) ..	22.8	22.9	
Monthly mortgage payment	$55.59	$68.62	23
Monthly housing expense	76.71	88.91	16
EXISTING HOMES			
Mortgagor's income	$4,219	$ 5,696	36
Property Value.	8,700	11,549	32
Mortgage amount	6,778	9,030	33
Loan-value ratio	78.0	78.5	
Mortgage term (yrs.) ..	19.8	20.1	
Monthly mortgage payment	$56.12	$74.34	33
Monthly housing expense	78.20	97.41	25

NOTE: All data are medians except mortgage term which is the average. SOURCE: FHA.

GROWTH OF HOME OWNERSHIP



A similar trend, though with narrower differences, is apparent in the figures for the purchases of older homes. Here the income of the typical buyer showed an increase of 36 per cent in the 1949-54 period, rising from $4,219 to $5,696. However, property values and the size of the mortgage were close behind, each showing a 33 per cent increase. Housing expense advanced by 25 per cent. Thus, in the case of the typical buyer of an older house, the proportion of income taken by housing expense declined from 22 per cent in 1949 to 21 per cent in 1954.

$6½ Billion of Loans Bought by Life Firms

Life insurance investment in mortgages would have to go some to equal the impressive record these institutions set last year—and while it will be "ample" in 1956, as the expression goes, few expect it to equal the 1955 total.

Life insurance dollars played almost the major role in financing the record construction job of 1955, the nation's more than 1,000 life companies investing an estimated $6,500,000,000 in mortgages during the year.

This was nearly $1,200,000,000 more than in the year before and nearly $2,200,000,000 more than in 1953. The greater part of the 1955 mortgage investment was for residential loans.

Total mortgage investment of the life companies at the close of 1955 was estimated to be $29,300,000,000, a net increase in the year of more than $3,300,000,000.

During the year, the life companies had nearly $3,200,000,000 made available through amortizations and prepayments.

Today's aggregate mortgage investment of U. S. life companies is some $22,500,000,000 greater than it was at the end of 1945—and the housing portion of that investment represents homes for several million families.

Of the 1955 city mortgage acquisitions of the life companies, $3,225,000,000, or just about half, were conventional mortgages, with VA mortgages accounting for the next largest block, somewhat over one-fourth of the aggregate.

VA mortgages totaled $1,850,000,000 in 1955, bringing total holdings of such loans to $6,025,000,000 at year-end.

The conventional city mortgage holdings of the life companies were estimated to be $14,650,000,000 at year-end, including home mortgages and commercial loans.

FHA mortgages were bought by the life companies in 1955 in the amount of $900,000,000, bringing holdings of these loans to an estimated $6,350,-000,000 at year-end.

Farm mortgages of the life companies were $525,000,000 and farm mortgage holdings at year-end were about $2,275,000,000, not including the $25,000,000 of VA farm mortgages in the VA listing.

Another significant trend in life company investments is that they are being spread over the country more than ever before. The companies are investing their funds in proportion to where they receive their premium income more than was ever true in the past. This is significant for many mortgage originators who long have contended that such should be the case. This isn't something entirely new because the life companies have long been conscious of the need for spreading out; but the totals for last

year show how well they have accomplished their objective.

The largest increases in invested life insurance funds have been recorded in the Mountain, West South Central and Pacific States in recent years.

This is shown in an analysis made by the Life Insurance Association of the investment distribution at the start of last year among companies representing 86 per cent of total assets of all U. S. life companies.

Greatest Gain Mountain States

The investments of these companies in the 15 Western and Southwestern States increased by $7,170,000,000 in the five previous years and rose by nearly $1,500,000,000 in 1954 alone. This refers to all investments but of course mortgages represent a most important part of the total.

These 15 states combined also showed the greatest rate of gain in life insurance ownership in this 5-year period and the sharpest rise in non-agricultural labor force.

Greatest rate of gain in life insurance investments was in the Mountain States, where the year's rise was 13 per cent and the 5-year increase was 75 per cent. The aggregate invested funds of the companies surveyed totaled $2,649,000,000 in the Mountain States at the start of last year, an increase of nearly $300,000,000 in the year and nearly $1,150,000,000 in the five years. Mortgages and corporate securities representing plant construction in the eight Mountain States accounted for virtually the entire increase in life insurance investments in that region.

The life companies' investment in the West South Central States at the start of 1955 was $7,824,000,000, a 5-year increase of 66 per cent and a one-year rise of 9 per cent.

The West Coast Increase

In the Pacific States, the investment totaled $7,804,000,000 at the start of last year, a 5-year increase of 60 per cent and a one-year rise of 8 per cent.

The region with the greatest aggregate investment of life insurance funds was that of the Middle Atlantic States, where the life insurance ownership is the greatest. In that three-state area, total investment holdings of the life companies surveyed were $13,198,000,000 at the start of last year, a rise of 18 per cent in the five years and of 4 per cent in the single year.

The East North Central States of Ohio, Indiana, Illinois, Michigan and Wisconsin came a close second in aggregate investment, with $13,167,000,000, up 37 per cent in the five years and 8 per cent in 1954.

These life companies' investment holdings in the other regions at the start of 1955 were as follows: New England, $2,954,000,000; West North Central, $5,402,000,000; South Atlantic $8,125,000,000; East South Central, $3,586,000,000. An additional $8,642,000,000 was in Canadian, foreign and unclassified investments.

›› FHA PRICES: On a national basis, FHA mortgages are around 98.2 for immediate delivery in the secondary market, according to the new survey by FHA's Division of Research and Statistics.

The February 1 average of 98.2 was the same as reported for January. The January 1 increase over the December level had reflected the first increase in this average price since September 1, 1954. This increase has been quite general, being reflected in the average for four of the six FHA administrative zones.

An increased number of FHA insuring offices were of the opinion that mortgage money was more readily available in early 1956 than in 1955.

›› ERRATUM: In the January issue of The MORTGAGE BANKER the heading, as well as the editorial note, of the remarks of John C. Hazeltine, Commissioner of HHFA's Community Facilities Administration, identified the College Housing Program as that of FHA when it should have been HHFA. We regret this error.

When the Borrower Dies

An Observation on a Matter of Pertinent Interest

***By* McCUNE GILL**

President, Title Insurance Corporation of St. Louis

YEARS ago a mortgage was just a mortgage. The amount loaned was about half of the value of the property and lenders did not depend much on the solvency of the borrower. They would take a mortgage and note signed by a stawman or a dummy corporation, feeling that the value of the property was sufficient security.

But a new theory of mortgage lending has developed. Amortized loans of much more than half the value of the property can be obtained and are guaranteed by governmental agencies provided the financial position of the borrower is such that there is a great probability that he will be able to pay the amortizations and interest without regard to the value of the security. Loans will not be made to a person with no earning capacity nor any loans to a strawman or corporation without assets. In other words, the loan is a personal loan with the security of the mortgage added instead of a mortgage loan that does not rely on the solvency or earning capacity of the borrower.

With this new view of mortgage lending in mind, it becomes important to inquire what will happen if the borrower dies. Some lending institutions insist that the borrower carry special life insurance which, in the event of the borrower's death or dis-

ability, will be sufficient to pay off the loan. But this is not always possible because of the competition existing in the field of mortgage lending.

This brings us to our next inquiry as to what the loan holder should do in having his note allowed as a claim in the Probate Court to enforce the personal liability of the borrower. If the claim is not allowed within the statutory period the estate will be relieved of liability and the mortgage holder will have only the value of the property as security.

A Case in Point

A specific example will serve to emphasize these principles. A wealthy man owned a large apartment building which he carried in the name of a holding corporation. A lending institution was asked to take a mortgage signed by the corporation, but insisted that the man also become comaker of the note. The man died and the mortgage holder forgot to have the note allowed in the Probate Court as a claim against his estate. The result was that the mortgage holder had to foreclose the mortgage and could collect nothing from the assets of the estate which were great enough to have paid off the mortgage. The mortgagee later sold the apartment for much less than the amount of the mortgage and lost part of its investment which would not have occurred if the obligation of the comaker on the note had been allowed as a claim against his estate in the Probate Court.

Death Determination

This brings us to our conclusion which is that mortgagees and their servicing agents should be careful to ascertain whether a borrower has died. This is usually evident from the fact that the check sent to cover the monthly payments is not signed by the borrower or the agent may receive direct notice from the heirs or transfer of fire insurance. Thereupon a claim on the note should be filed in the Probate Court, or administration proceedings opened by the note holder, so that if any other assets appear they can be used to pay or partly pay the note. In this way foreclosure can frequently be avoided.

The statutes of the different states vary as to the methods of filing these claims, the time within which they must be presented and the ways in which they can be collected with or without foreclosure. These statutes should be studied by local counsel so that neither the holder of the mortgage nor its servicing agent will be negligent in not preserving the personal liability on the note which is now such an important element in mortgage financing.

Our Gold

THE average American is accustomed to thinking of his country as the world's richest with the soundest currency—and he's right. It's been quite a while now since he's had any actual gold himself but he knows that out in a place called Ft. Knox is the biggest pile of gold anywhere. It's comforting for him to know that it's back of his money.

Uncle Sam is the world's banker all right but being a banker has some hazards, as George Shea of *The Wall Street Journal* observed in an article pointing up the fact that, in the event on some unimaginable emergency, that stock of gold could go down—maybe pretty far and pretty fast.

Calling attention to this little known fact, Shea says:

"Foreign nations have gold deposits, or other short-term credits payable in gold, to their credit in the U. S. totaling some $12 billion. The equivalent of a run on the 'bank' would be a withdrawal of a large part of these funds which would deplete the gold stocks that underlie U. S. currency.

"Of course no one in the 'bank' really expects that any, or even a great part, of this gold will be withdrawn. But as a possibility, it is something that weighs on Government officials because this $12 billion represents almost half of our total gold reserves, and for every dollar of gold pulled out the lending power of our banking system would be reduced by five dollars.

"And it is not, of course, an impossible contingency. How quickly such foreign deposits can shift from one country to another is shown by the fact that the total held here has doubled in the past six years. There have been times, as in the 1930's, when such funds moved rapidly from one country to another in panicky dashes that President Hoover likened to the lunges of a loosened cannon from one

side of a ship to another. In those times the shifts played havoc.

"To get today's problem in perspective—to see both what worries and what reassures government officials—it is necessary to take a brief look at the origin and nature of these deposits and the foreign claims against them.

"Title to most of the nation's gold is held by the Federal Reserve System, although the bulk of it is warehoused by the U. S. Treasury, and the System uses it as its basic monetary stock. Altogether the Reserve System has around $21 billion in gold. Among the liabilities against this gold are some $19 billion to the commercial banks, which have funds deposited in the Reserve System, and some $26 billion in paper money issued by the System.

"Thus against these $45 billion in liabilities, the Reserve System has a gold reserve of $21 billion. This gold reserve of 45 per cent of liabilities is considered more than ample; indeed, the minimum reserve required by law is only 25 per cent.

"But the $12 billion of foreign short-term credits is an even more direct claim on our gold reserves. Citizens of the United States can't cash their paper money for gold. But foreign central banks and governments can.

"Actually, foreign claims amount to much more than $12 billion. However, part of them are long-term claims—such as foreign investments in American stocks or other enterprises—and it is only the short-term credits that need to be primarily considered. Altogether these short-term credits come to $13 billion, and we have offsetting claims abroad of around $1 billion, leaving $12 billion net.

"Obviously, if Uncle Sam suddenly faced a 'run on the bank' and that amount were all taken out in the form of gold, our own gold reserves would be pulled down to around $9 billion. That would then be only 20 per cent of the Reserve System's deposit and

currency liabilities—quite a bit under the 25 per cent legal minimum.

"That explains why the size of today's foreign deposits in this country is causing some discussion of what measures might be taken in advance to obviate the effects of any future recurrence of what happened in the 1930's.

"One trouble, of course, is that any such measures, unless taken without advance notice, would tend to produce the very uneasiness abroad which could bring on a run. For instance: The minimum of 25 per cent on the Reserve System's gold ratio could be lowered by law—we've done it before; it used to be 40 per cent. But that would entail a debate by Congress, during which some foreigners would almost surely get scared and pull out their money.

"Another suggestion that has been made is to increase the price of gold. If the price were raised, say 50 per cent, the present gold reserve would become 'worth' over $31 billion. But that would also reduce the gold content of the dollar; that is, devalue it.

"Thus we would be doing one of the very things we would theoretically be trying to prevent. Also, our action would not be regarded well abroad, since we would be short-changing foreign creditors—each of their dollar credits would entitle them to less gold than it would have before the devaluation.

"Still another measure being discussed is one aimed at cushioning the effect of any general gold withdrawal on the cash reserves of the banking system. That could be done by reducing the amount of reserves the commercial banks are now required to keep as protection for their depositors. Currently the required reserves are, on the average, 16 per cent of demand deposits. The Reserve Board already has the power to cut that to 10 per cent. This move alone would free some $7.5 billion.

"Of course this move taken by itself would be inflationary. But what is envisioned here is a reduction in reserves only as a counter-measure against the withdrawal of gold by foreign creditors which would have a deflationary impact.

"Fortunately there is now no reason to think the U. S. will be forced by foreign withdrawals to adopt any of these measures. Since World War II foreign nations have been adding to their 'deposits' in Uncle Sam's bank rather than withdrawing them. This is a reflection of economic health abroad because foreign countries have been able to sell increased amounts of goods to us and leave some of the proceeds here. They also use some of their funds here to buy our goods.

"The increase in foreign balances here is also a reflection of foreign aid handed out by Uncle Sam."

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What It Costs to Operate a Mortgage Loan Business

By EDWARD J. DeYOUNG
Assistant Director, MBA Servicing and Accounting Department

This article is an important "first" for the mortgage industry. Many firms have analyzed their own operations to determine where their profits are and where their losses have occurred; but here, for the first time, is a broad analysis of the experience of many firms as to just what it costs to operate a mortgage loan business, which departments produce the profits and which ones account for the losses. Here is a collection of facts which every mortgage company will want to study carefully, particularly with an eye to comparing them with their own experience.

THE need for a standardized system of cost accounting for mortgage bankers is now well recognized; so to create one, it was first believed that the almost complete absence of uniformity among mortgage companies would prove a difficult obstacle to overcome. Approximately 2,000 firms can be engaged in an identical business producing a similar product; yet these same 2,000 firms can be organized and operated in almost as many different ways.

E. J. DeYoung

This great divergence in organizational structure and method of operation among mortgage bankers proved to be a major difficulty in reconciling individual handlings. We had to treat, individually, the controversial points as they arose—continuously; but at the same time it was vital to keep our sights on one final objective: a cost system that would be

» Applicable to all mortgage firms regardless of size, structure and operation

» Comprehensive enough to produce accurate and valid data for comparative purposes on an industry-wide scale, and

» Simple enough to be easily workable and not burdensome to individual mortgage companies.

First, it had to be decided whether to create a pure cost system to be operated on a perpetual basis, or to design one of merely a summary nature to be used only periodically in retrospect. We chose the latter; first, because our initial investigations revealed that familiarity with and the use of cost accounting principles are almost completely alien to mortgage bankers; and second, because nearly 80 per cent of all mortgage firms are relatively small in scope of operations. Consequently, it would have been impracticable to draw up and suggest for use a refined cost accounting system necessitating study and additional expense for installation and maintenance.

Therefore, a summary or analytical cost system has been designed to produce the most accurate figures for determining loan origination and servicing costs without the establishing of a perpetual cost accounting system, or the making of an exhaustive study of all past income and expense items. Our simplified system is intended to be used in conjunction with a company's already prepared semi-annual or annual statement of income and expense. We have also, however, tried to incorporate sufficient flexibility within the system so that few alterations will make it adaptable for large companies desiring the added advantages of operating daily or perpetual cost procedures.

We next had to decide whether to include or exclude such allied departments as insurance, property management and real estate sales. Because of the primary interest in knowing the costs of originating and servicing mortgage loans, along with the same reasons given earlier, we decided, for the present at least, to deal with mortgage loan production and servicing only. Allied activities, therefore,

are treated only to the extent that their equitable share of general expenses must be considered before determining production and servicing expenses. Applicability of the system, however, is such that the designed work sheets may easily be applied to other departments by those companies engaged in these allied activities, and interested in knowing their respective costs. All mortgage activity income and expense are assigned to either production or servicing departments. While some companies are departmentalized to the extent of originating, processing, conveyancing, servicing and collection, such an organizational structure is the exception rather than the rule. Such a breakdown of production and servicing activities, in most companies, would create the additional problem of accurate allocation of over-lapping space, costs and personnel duties.

For purposes of our suggested cost system, the functions of the servicing department begin when an originated loan has been closed and delivered to an investor, and the servicing process has begun. Warehoused loans and closed loans awaiting placement and delivery are considered as still in the production department. Under pure cost accounting methods, the income and expense of the closed, but unsold, loans should rightfully be broken down and charged to both the production and servicing departments. Detailed figures required for such an allocation are not, however, usually maintained by mortgage bankers in readily accessible form, and hence are not available for cost study.

Though it might appear that in designing our standardized cost accounting system we have chosen the path of least resistance in treating all controversial points, quite the contrary is true. Each step within the system was carefully studied in the light of possible application to all possible mortgage company situations. Within our industry there exist companies servicing volumes ranging from a few million dollars to several hundred million dollars. There is the single proprietorship, the partnership and the large corporation. There is the one-room office and the branch-office company covering several states, with firms of every possible size in between. There is the company maintaining ledger books manually and the company employing a complete installation of electronic equipment. There is the company handling farm loans in North Dakota and the mortgage broker in New York dealing with industrial and commercial loans. We had to consider all of these.

To attempt designing any one cost system that may be applicable to all companies is certain to result in a treatment of some items in a manner that is not necessarily the most ideal and proper for any one particular organization. This is recognized, and our recommended cost system is not intended to be used in its *exact* form for establishing a pure cost accounting system for daily use within an individual company. It is designed, rather, to accumulate cost data which is complete and accurate enough to provide for the first time, valid and comparative costs throughout the mortgage industry.

There is no need to enumerate here our arguments and discussions concerning the handling of each income and expense item contained within the completed cost system. One provocative point, however, will illustrate the problem of attuning each item in accordance to all possible situations. Take, for example, the issue of executive salaries. How best to deal with these? In some companies, only the actual owners are chief executives. In other places, top management may

Table 1

Company Code Number	No. of Loans Closed Per Month	Gross Income Per Loan Closed	Gross Expenses Per Loan Closed	Net Income or Loss Per Loan Closed
1.	13	165.31	199.58	(34.27)
2.	18	208.68	140.86	67.82
3.	13	138.97	162.62	(23.65)
4.	13	225.22	360.29	(135.07)
5.	33	255.75	290.50	(34.75)
6.	52	119.59	120.28	(.69)
7.	30	229.91	241.99	(12.08)
8.	43	451.79	322.44	128.75
9.	18	500.49	620.60	(120.11)
10.	57	198.03	203.97	(5.94)
11.	58	172.22	145.39	26.84
12.	39	180.90	193.53	(12.63)
13.	50	236.76	263.70	(26.94)
14.	60	153.92	201.08	(47.16)
15.	48	471.36	581.75	(110.39)
16.	105	173.21	203.23	(30.02)
17.	57	450.00	490.00	(40.00)
18.	135	105.49	108.68	(3.19)
19.	63	290.31	295.69	(5.38)
20.	114	392.86	305.48	87.38
21.	130	339.97	268.04	71.93
22.	142	443.06	337.40	105.67
23.	193	273.41	255.57	17.84
24.	129	212.37	268.81	(56.44)
25.	331	172.90	158.46	14.44
Small Avg. 1-8	27	240.10	227.41	12.69
Medium Avg. 9-16	54	228.10	260.43	(32.33)
Large Avg. 17-25	143	268.52	243.63	24.89
TOTAL Avg. 1-25	77	256.33	245.60	10.73

Note: ( ) denotes loss.

consist entirely of hired personnel; other companies, the high level jobs may be handled by both owners and hired employees. In one company, a certain position may be considered "executive," in another it may not. And some executives whether they be owners or not, devote all of their efforts to just one phase of the operation; others may divide their time among all departments, while still others are actually "semi-retired" and, in reality, contribute very little to the everyday operation of the business. The over-all problem becomes even further complicated when we realize the many various ways in which these executives receive their compensation. Remuneration may be taken in any possible combination of salary, bonus, dividends and net profits. How, then, should executive salaries be weighed and considered for comparative analyses?

No one, we are sure, will arbitrarily insist that there is only one way to handle the expense item of executive salaries, a characteristic true of almost all income and expense items. In arriving at a standardized system of cost accounting for use by all mortgage bankers, we have endeavored to consider the typical situation, reconcile as best possible the unusual conditions, and still adhere to accepted and recognized principles and practices of standard cost accounting.

Having completed what we consider a workable and satisfactory cost system, we felt that it should be "field tested" by a select number of mortgage companies. Accordingly, certain companies were chosen according to size, type of operation and location. This "field test" was conducted for two reasons: first we were interested in discovering any specific items in the cost system which might be improved through actual use by mortgage companies; and, second, because we wanted to gather and prepare actual cost information regarding everyday operations within the mortgage banking field.

Reports received from those participating in our initial test of the system indicated that the system is workable, that it does fulfill our original objectives. Many recommendations for minor improvements were also received; these will be incorporated in our final revision. The actual figures of income and expense that were submitted to us on the completed cost worksheets are in some instances quite revealing and extremely informative. Certain pre-existing industry opinions are substantiated, other long-established ideas are completely reversed when viewed in the light of true cost data.

The identity of participating companies cannot, of course, be revealed in the following tables, showing actual income and expense figures. Each company, therefore, is designated simply by a company code number; in all the tables these numbers (companies) run consecutively from 1 through 25. It will be noted that in all the comparative listings the companies are arranged in order of size, based upon servicing volume as determined by unit count rather than dollar volume. Thus, company number 1, servicing 785 loans, is the smallest; and company number 25, servicing 25,727 loans, is the largest.

For purposes of further comparison, the companies have also been grouped in size according to small, medium and large. The small companies (1-8) service under 2,000 loans; medium size companies (9-16) service between 2,000 and 5,000 loans; and the large companies (17-25) service in excess of 5,000 loans. This arbitrary choice of division as to small, medium and large companies was not determined

Table 2

Company Code Number	No. of Loans Serviced Per Month	Gross Income Per Loan Serviced Per Month	Gross Expenses Per Loan Serviced Per Month	Net Income Per Loan Serviced Per Month	Average Loan Balance	Number of Investors
1.	785	2.56	.68	1.88	6389	3
2.	831	3.08	.91	2.17	7001	6
3.	1075	2.73	2.00	.73	5810	25
4.	1115	3.41	2.36	1.05	9086	7
5.	1128	3.87	1.52	2.35	9741	74
6.	1141	3.55	1.76	1.79	8000	8
7.	1697	3.01	1.69	1.31	8160	14
8.	1929	3.91	1.85	2.06	10247	30
9.	2110	2.62	1.65	.96	6442	14
10.	2285	3.24	1.22	2.02	7594	11
11.	2353	2.69	1.63	1.06	6165	8
12.	2979	3.24	1.49	1.75	7250	130
13.	3544	2.80	1.07	1.73	7423	135
14.	3781	3.38	.84	2.54	8484	9
15.	4025	5.19	2.79	2.40	29651	47
16.	4341	3.33	1.37	1.96	9809	22
17.	5984	3.52	1.13	2.39	8397	40
18.	6739	3.52	1.60	1.92	11157	42
19.	7230	2.11	1.17	.94	7514	27
20.	7400	4.03	1.38	2.65	9500	15
21.	9056	2.55	1.52	1.03	7737	60
22.	9065	3.17	1.40	1.77	8157	49
23.	9978	3.02	.78	2.24	7900	60
24.	12655	2.94	1.34	1.60	6680	112
25.	25727	2.77	1.36	1.41	8071	125
Small Avg. 1-8	1212	3.33	1.67	1.66	8343	20
Medium Avg. 9-16	3177	3.42	1.52	1.90	11305	47
Large Avg. 17-25	10426	2.98	1.30	1.68	8153	58
TOTAL Avg. 1-25	5158	3.09	1.37	1.68	8789	42

scientifically, but was decided simply by separating all 25 companies into three equal groups. Oddly enough, however, the size categories are divided at points equal to what is commonly thought of as small, medium or large companies.

Table 1 shows for each company the average number of loans closed per month, gross income, gross expense and the net income or loss per each loan closed. The great spread that occurs in the columns showing gross income and expense per each loan closed, graphically points up the problems existent in our industry due to various warehousing and discount difficulties. This table also reveals that more than two-thirds of the companies represented operated their production departments at a definite loss during the past year. The fact that the remaining one-third managed to show a production department profit can be attributed to construction loan activity. Almost without exception, being engaged in the construction loan field was the sole redeeming factor that enabled certain companies to avoid over-all losses in their mortgage loan production departments.

The averages for small, medium and large company categories shown at the bottom of Table 1 reveal a most interesting picture. When studied as size groups, we find that collectively the small firms realized a net profit of approximately $12 and the large organizations earned about twice this amount per each loan closed. The medium size companies, however, lost $32 on each such transaction. One explanation for this condition could be that the small companies of necessity require a greater degree of certainty before committing new loans, and also withdraw sooner and farther in an unstable and tightening market. The largest companies generally are better established and organized and enjoy certain advantages regarding business transactions and financing arrangements. The medium size companies on the other hand, generally comprise that group which has passed from the "small" group and are striving to become "large." Aiming for this additional growth usually means that the foremost objective is to increase servicing volume. Such an objective lends itself very easily to deficits in the production department.

Table 3

Company Code Number	Salaries	Employee Benefits	Professional Fees	Rent & Utilities	Stationery and Supplies	Telephone	Entertainment & Travel	Advertising	Automobile	Taxes & Licenses	Interest	Depreciation
1.	60.4	2.9	1.5	5.1	6.7	4.8	2.5	5.8	1.7	1.3	2.2	5.2
2.	35.9	—	1.9	5.5	4.5	1.5	4.9	7.4	—	1.4	33.2	2.4
3.	67.8	1.6	4.2	5.4	3.0	1.8	5.2	2.0	1.7	1.3	4.6	1.3
4.	65.9	0.6	1.9	7.0	6.5	5.3	3.0	2.1	1.8	2.3	0.5	3.0
5.	50.5	2.1	12.7	3.0	6.4	2.3	7.8	2.9	1.3	3.0	2.9	5.1
6.	36.7	0.9	4.1	2.7	3.1	2.6	6.4	0.5	—	0.6	38.8	3.1
7.	64.0	1.7	0.1	8.7	10.9	3.6	3.6	2.4	1.5	1.0	—	3.6
8.	38.8	—	0.7	2.4	2.5	1.8	3.3	0.3	1.2	2.2	42.5	2.7
9.	40.0	2.8	7.0	2.3	4.0	2.5	1.7	0.4	1.4	0.7	35.6	1.6
10.	40.9	0.5	1.2	1.9	3.4	1.7	4.8	4.4	1.2	1.8	33.2	1.9
11.	49.4	0.7	2.0	2.1	7.0	1.6	3.3	0.5	1.8	1.1	25.2	3.2
12.	54.2	—	—	3.9	3.7	1.8	4.2	2.3	2.5	0.7	23.8	2.5
13.	66.4	1.6	0.4	2.3	1.6	1.2	1.0	0.4	1.0	0.8	20.3	1.5
14.	55.9	1.2	0.9	4.1	4.6	2.3	3.4	—	0.8	0.7	21.0	1.1
15.	56.1	1.1	2.5	4.0	4.0	1.1	5.2	2.5	1.9	0.3	19.7	1.6
16.	46.5	1.3	1.9	4.2	4.8	1.8	4.3	2.7	—	0.7	27.8	3.4
17.	52.8	1.5	1.2	4.3	3.0	2.1	2.2	4.4	1.6	1.3	22.5	2.6
18.	69.2	5.2	0.8	4.3	4.5	2.1	5.5	3.1	—	4.7	—	—
19.	38.3	0.7	0.4	4.1	3.3	0.9	2.3	2.5	1.2	0.1	42.6	3.1
20.	50.6	—	1.7	5.9	4.9	1.4	1.8	4.4	0.6	3.2	23.4	1.6
21.	44.8	1.7	1.6	1.9	4.1	1.3	2.9	1.9	2.0	1.3	34.2	1.6
22.	19.8	1.0	1.8	5.0	2.1	—	3.7	0.8	0.7	1.7	55.8	4.0
23.	45.8	3.3	5.5	1.9	2.9	1.1	2.6	1.4	1.2	1.5	30.0	2.2
24.	42.6	1.4	6.8	8.7	4.1	2.0	1.9	4.1	5.2	0.5	20.0	2.2
25.	55.8	1.3	1.9	6.0	8.8	4.2	5.1	1.1	1.0	6.8	—	8.0
Small Avg. 1-8	52.7	1.1	3.3	4.8	5.5	3.2	4.1	2.2	1.3	1.9	16.5	3.4
Medium Avg. 9-16	53.7	1.2	2.0	3.4	4.0	1.6	3.9	1.9	1.4	0.8	24.2	1.9
Large Avg. 17-25	47.2	1.6	2.8	5.1	5.0	2.2	3.4	2.4	1.8	3.0	21.7	3.8
TOTAL Avg. 1-25	49.2	1.5	2.6	4.7	4.8	2.1	3.5	2.3	1.7	2.4	21.9	3.3

SIX IMPORTANT COST-CONCLUSIONS: ›› *That the exclusive production of mortgage loans is usually unprofitable or at best little better than a break-even operation.* ›› *That activity in the construction loan field is almost necessary if profit is to be realized in the production department.* ›› *That the average cost of originating a single loan is approximately $245.00.* ›› *That the cost of servicing the average loan per month is roughly $1.37, with an accompanying profit of $1.68 per loan per month.* ›› *That the average mortgage company spends about 75 per cent of total expense funds for salaries and interest cost.* ›› *That net profit for the average firm is entirely dependent upon the servicing operation.*

Table 2 shows the number of loans being serviced, gross income and gross expenses per month for each loan, and the net income derived monthly from servicing each loan. The average loan balance and the number of investors are also shown. It can quite readily be seen that all companies enjoy a profitable servicing department, although the degree of profit among companies varies considerably. The amount of gross monthly income per loan serviced is, of course, in direct proportion to the average loan balance. Net income, naturally, is determined by the expense incurred in servicing each loan. Regarding servicing expenses, no conclusions are evident to support definitely a manual, bookkeeping or electronic system of servicing. High and low servicing costs appear in all three types of operation.

Net income per loan serviced is almost identical for both small and large companies, but is considerably higher for medium size firms. This is understandable when we remember that the medium size companies incurred great losses in producing new loans in their efforts to build new servicing volume. Consequently, these servicing portfolios show a disproportionate number of new loans to seasoned loans, resulting in over-all higher servicing income.

In Table 3, we show a complete breakdown of all expense items in percentages with total expense equal to 100 per cent. These figures, incidentally, represent the combined expenses of both the production and servicing departments. Should anyone doubt that mortgage banking is an unique and different business in comparison to other industries, the data in this table will dispel that doubt forever. For we discover that, on the average, one-half of all expense goes directly to salaries, and that salary and interest expenses together account for over 70 per cent of all cost items. The higher amounts

(Continued on page 58)

Table 4

Company Code Number	Percent of Total Income		Percent of Total Expense	
	Production Dept.	Servicing Dept.	Production	Servicing
1.	51.9	48.1	83.0	17.0
2.	59.9	40.1	77.4	22.6
3.	37.8	62.2	49.3	50.7
4.	44.0	56.0	64.4	35.6
5.	66.0	34.0	84.8	15.2
6.	60.4	39.6	75.6	24.4
7.	57.4	42.6	71.5	28.5
8.	71.9	28.1	79.4	20.6
9.	61.8	38.2	76.0	24.0
10.	60.2	39.8	80.4	19.5
11.	61.3	38.7	68.8	31.2
12.	42.4	57.6	63.2	36.8
13.	54.4	45.6	77.7	22.3
14.	42.2	57.8	79.3	20.7
15.	51.8	48.2	71.2	28.8
16.	55.7	44.3	78.2	21.8
17.	54.7	45.3	80.4	19.6
18.	37.5	62.5	58.1	41.9
19.	54.5	45.5	68.7	31.3
20.	60.1	39.9	77.3	22.7
21.	65.7	34.3	71.7	28.3
22.	68.5	31.5	78.9	21.1
23.	63.8	36.2	86.4	13.6
24.	42.2	57.8	67.0	33.0
25.	44.4	55.6	60.0	40.0
Small Avg. 1-8	59.8	40.2	74.3	25.7
Medium Avg. 9-16	52.8	47.2	73.7	26.3
Large Avg. 17-25	53.6	46.4	70.4	29.6
TOTAL Avg. 1-25	53.9	46.1	71.5	28.5

What Are the Facts a

FEW questions today are debated with more heat and less light than is the outlook for home building. An apparently never-ending series of Congressional hearings and investigations continues to evoke a great variety of opinions, though not many facts, on the subject. Tremendous pressure is brought to bear on government agencies first to curb, then to stimulate, the housing industry. Some observers feel that our housing needs will not be satisfied until every resident has his own little white cottage; others feel that we have already over-mortgaged our futures.

Dr. G. W. McKinley

The political aspects of the question are played for all they are worth. It is truly unfortunate that in all this discussion so few attempts are made to analyze the facts—so far as they are known—and to produce objective estimates of what can reasonably be expected by way of housing demand during the next few years.

The answer is not an easy one, nor is it likely that any single estimate will bring unanimous acceptance from the conflicting interest involved.

The demand for housing is affected by two separate—though not entirely unrelated—forces. These two forces are income and population. To simplify my premise, I will assume that over the next five years the United States will remain prosperous and that incomes will continue to rise in much the same fashion as they have during the past five years. In other words, the estimates of housing demand developed here are not by any means *minimum* estimates. They are estimates of the volume of housing demand which will show itself in the marketplace, *provided* the economy as a whole remains prosperous during the period under consideration.

First, look at the period 1950-55—a prosperous period similar to that which we are assuming for the future—and find out where the demand for housing has come from since 1950. Having got clearly in mind the factors which have contributed to housing demand in recent years, we will then be in a position to inquire into what is likely to happen to those factors in the future.

Housing demand arises from (a) the net increase in the number of households, (b) the wearing out or demolition of the existing housing stock, and (c) the need to raise the vacancy ratio to the point where the existing population can migrate from place to place, or—stated alternatively—the need to continue building up to the point where vacancies spread from older to newly-constructed housing.

A Look at the Record

The first of these factors is analyzed in Table I *(p. 32)*. Column one of this table shows the average annual net increase in *non-farm* households during the period 1950-55. The demand for housing in this country is almost entirely the non-farm demand. Although the volume of farm mortgage loans is substantial, these are almost entirely business loans, rather than residential construction loans. The series on housing starts against which we will measure demand, is also a non-farm housing starts series. Because of the steady migration off the farm, *non-farm* household formation is *greater* than the total household formation. In the period 1950-55, non-farm household formation averaged 980,000 a year, whereas total household formation averaged only 835,000.

Households are formed either as family (i.e. related) groups, or as single persons or groups of unrelated persons living together. The first three items in Table I refer to "family" households and the last two items to "individual" or "unrelated" households. During this six year period, there was an average annual net increase in family households of 680,000, and an average annual net increase of individual households of 300,000.

This does not mean, however, that families and individuals increased by these respective amounts. A "household" is by definition equal to an occupied dwelling unit. During the period 1950-55, part (530,000) of the increase in family households came from a net increase in families themselves, but part also came from the undoubling of related groups previously living together. There was an annual undoubling of 95,000 subfamilies—families related to the head of another family with whom they are living, such as a young married couple living with his or her parents. There was also an annual undoubling of 55,000 secondary families—families living in the same household with another family but not related to them.

The same process has been going on in the case of individual households. Of the total individual households formed each year, 145,00 has come from a net increase in the total number of persons not living in a family group, and 155,000 has come from an undoubling of such individuals who had previously been living together.

Of the total of 980,000 average annual non-farm household formation in the period 1950-55, 305,000 households a year have resulted from undoubling. This is an important fact because undoubling will not, and cannot, continue forever. When it is completed, household formation must depend entirely on the net increase

ts about Housing Demand in the Next Five Years

By **DR. GORDON W. McKINLEY**

Probably there is more optimism regarding the number of houses this country will continue to build and absorb than in any other area of the economy; but the fact is that some of it is based upon wishful thinking. What are the hard cold facts, the facts based upon a calm and careful appraisal of just what we can expect during the next five years?

That's what Dr. McKinley gets at here; and while his estimates fall below those of most of the forecasters, they still represent the prospect of continued high activity. His general conclusions: Non-farm housing won't average much above 1,100,000 units annually unless action is taken to speed up demolitions (a most important factor in looking ahead in this field); housing during the next five years will take a declining proportion of the gross national product; the need for mortgage funds will continue to rise because of the increase in price of the average house; and, finally, if the government continues as interested in housing as it is at the moment, then it will have to devote less effort to creating new sources of loanable funds (which is not and will not be a problem) but more attention to eradicating slums and getting rid of outworn structures.

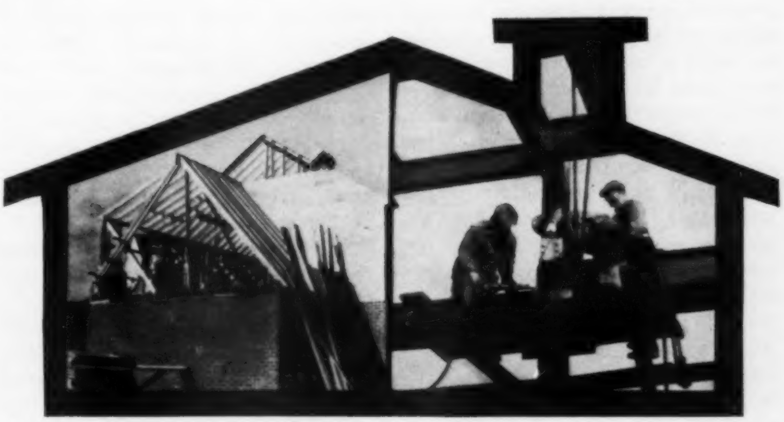
Dr. McKinley is Director of Economic Research of The Prudential Insurance Company of America.

in families and individuals themselves (which, as I have pointed out, has averaged 675,000 annually in recent years). If the rate of undoubling of secondary families during the past six years is continued in the future, there will be no secondary families at all by the end of 1959!

There are therefore definite limits to the volume of demand which we can expect to arise from undoubling in the future.

Housing demand depends not only on household formation but also on replacement needs resulting from the wearing out or demolition of the existing housing stock. A need for home construction also arises when the vacancy ratio is so low as to allow insufficient mobility to the population. The first column of Table II *(p. 33)* shows the relative importance of these factors in total non-farm housing demand in recent years.

Our housing stock is continually wearing out or being demolished (by design or by accident), so that in an average year we must replace something like 100,000—150,000 housing units simply to maintain the existing stock. On the other hand, in many years there is an offsetting factor in the form of conversions of older structures from single to multi-unit dwellings. Conversions of single unit dwellings into multi-unit dwellings add to our housing stock just as the retirement of older homes subtracts from it. During World War II and the immediate post-war period, conversions far exceeded demolitions so that the housing stock was able to increase by a greater amount than the volume of new residential construction. In the period 1950-55, however, there was probably a reverse conversion. That is, many of the units previously split up into multi-unit dwellings were retired or were returned to a single-family status. This reverse conversion acted just like demolitions in reducing



the existing housing stock, thus giving rise to an annual demand for housing from demolitions and conversions of about 180,000 a year from 1950 to 1955.

The final factor contributing to demand for housing in recent years has been the very low vacancy ratio. It is true that there has been a gradual rise in the vacancy ratio since 1952, but these vacancies have appeared mostly in rural areas, or very old housing, or in rental housing. Demand for new 1-3 family homes has remained strong so that, as far as builders are concerned, the rise in the vacancy ratio has been an interesting, but not a compelling, statistic. It will not be until the vacancies begin to appear in newly constructed homes that housing starts will be affected. When these vacancies do appear, however, the effect on construction will be sharp and immediate. No one knows just how high the vacancy ratio can go before its effects spread to the new housing field, but it is obvious that that point was not reached in the period 1950-55. An average of 80,000 vacancies a year was added during these years without producing a significant effect on the new construction market and without raising the overall non-farm vacancy ratio above 2.8 per cent at the end of 1955.

The 2.8 per cent vacancy ratio at the end of 1955 is my own estimate, and differs somewhat in concept from the vacancy ratio reported earlier in 1955 by the bureau of the census. The census reports that in the third quarter of 1955 the overall (farm and non-farm) vacancy ratio for the country was 2.3 per cent. Although the census does not report a *non-farm* vacancy ratio separately, it does indicate that the ratio in large cities is quite a bit lower than in rural areas. According to the census definition, the non-farm ratio is therefore less than 2.3 per cent. The census does not, however, include in this ratio those houses which have been sold but are not yet occupied. These vacancies are obviously significant because, as the new occupants move in, vacancies will appear in their former dwelling units. After adjusting the census vacancy ratio to put it on a non-farm basis, to include homes sold but not yet occupied, to include the vacancies occurring in the fourth quarter of 1955, and to allow for what seems to me some under-estimating in the census figures because of sampling errors, I have arrived at the 2.8 per cent non-farm vacancy estimate shown in Table II.

Now that we have examined the characteristics of housing demand in recent years, let's turn to the future and attempt to estimate the probable sustainable level of non-farm residential construction in the years 1956-60.

My estimates for non-farm household formation over the next five years are shown in the last two columns of Table I. It should be obvious to anyone who has studied the age characteristics of our population that we cannot expect any substantial increase in the rate of family formation over the next five years. In 1960, there will actually be fewer men and women in their twenties (the age bracket which produces the most marriages) than there are today. Even though our population is growing in size, the group which is now moving up to marriageable age is unusually small, reflecting the low birth rates of the thirties. There will also be fewer men and women between ages 20 and 40 in 1960 than there are today. It is true that by 1960 the number of men and women in the 15-19 age group will be larger than today. Since many people get married before reaching age 20, we can expect a slight rise in family formation in the years 1959-1960, and a portion of these increased marriages will result in demand for separate living quarters during those years.

In addition to the fact that the group reaching marriageable age is likely to remain small in the next few years it should be noted that we have already pushed the backlog of deferred marriages about as low as it is likely to go. The median age for first marriage for women has now fallen to 20.2 years, and for men to 22.7 years. That is, half of all women who ever marry, now do so by the time they are twenty years old. (In 1890, the median age of first marriage for women was 22.0 years; for men 26.1 years). Because of this early age of marriage, and other factors, only 17 per cent of all women 14 years of age or older in non-farm areas are single. Only 12 per cent over age 17 are single. This not only presents a rather grim prospect for eligible bachelors, but also gives little hope for a substantial increase in new-family demand for homes in the near future.

In estimating a small increase in family formation in 1956-58 and a somewhat larger increase in 1959-60, I have taken into account not only the increase in the 15-19 age group but also some possibility that continued prosperous conditions will encourage an increased marriage rate in the older groups.

The net increase in non-farm individuals is also likely to rise quite

TABLE I—NON-FARM HOUSEHOLD FORMATION PER YEAR, 1950-60

	1950-55[a]	1956-58[b]	1959-60[b]
*Net increase in non-farm families (from causes other than undoubling of sub-families)	530,000	555,000	616,000
*Net undoubling of sub-families	95,000	30,000	5,000
*Net undoubling of secondary families	55,000	15,000	———
†Net increase in non-farm individuals	145,000	150,000	159,000
†Net undoubling of secondary individuals	155,000	100,000	50,000
	980,000	850,000	830,000

*The sum of these three items equals non-farm family households formed.

†The sum of these two items equals non-farm individual households formed.

[a]Estimates based on Census data.

[b]Forecast.

slowly over the next five years. Non-farm individuals are those who do not live with any relatives. The net increase in this group is affected by a number of factors, the most important of which are the following: (a) The number of young people reaching the age when they might normally leave the family household to strike out for themselves (b) The number of older people who are separated from their spouse, by death or other reason, and who wish to maintain independent living quarters (c) The net increase in marriages, since many of these are formed from persons previously in the "unrelated individuals" group.

The only one of these factors likely to cause a rise in the net increase in individuals is (b). The fact that more people are living to older ages, plus increased financial independence of older people, will probably lead to a gentle rise in the annual increase in non-farm individuals, such as that pictured in the last two columns of Table I.

I indicated earlier that there is likely to be a decline in the next few years in household formation arising from the undoubling of families or individuals. The number of secondary families has already fallen to a very low level. Only 3.5 per cent of all existing married couples are without their own household—the lowest percentage recorded since this figure was first calculated in 1910. The only large potential for undoubling period, appears to be among secondary individuals — and even here there has recently been a pronounced slowing down in the rate of undoubling.

The last two columns of Table I show the estimated household formation through undoubling during the next five years. It will be noted that the expected decline in the rate of undoubling more than offsets the expected rise in families and individuals, so that non-farm household formation is estimated to average only 850,000 per year from 1956-58 and 830,000 per year from 1959-60.

I pointed out that, in the 1950-55 conversions and demolitions increased housing demand by about 180,000 units a year. The experience of this period was quite different from that in earlier years. It has been estimated that from 1910-1940, net demand from conversions and demolitions probably did not exceed 60,000 units a year. From 1940 to 1950, the volume of conversions far exceeded the volume of demolitions so that demand for new construction was actually decreased by this factor. In the 1950-55 period, however, demolitions were higher than in previous years, and the conversion process acted in reverse, the tendency being to merge multi-family units into single family units.

TABLE II—SUSTAINABLE LEVEL OF ANNUAL NON-FARM RESIDENTIAL CONSTRUCTION, 1956-60

	1950-55	1956-58	1959-60
Non-farm household formation	980,000	850,000	830,000
Net conversions (-) and demolitions (†)	180,000	125,000	135,000
Rise in non-farm vacancies	80,000	150,000	155,000
	1,240,000	1,125,000	1,120,000
Estimated transfer of existing units from farm to non-farm category	30,000	25,000	20,000
Annual non-farm construction	1,210,000	1,100,000	1,100,000
Non-farm housing stock,* end of period	45,500,000	48,440,000	50,410,000
Estimated "significant" non-farm vacancy ratio at end of period	2.8%	3.4%	3.8%

*Excluding trailers.

During the next few years, demolitions are likely to remain relatively high. Extensive highway programs in developed areas will require the destruction of many dwelling units. Urban renewal and slum clearance programs will continue to provide a moderate, but steady, addition to housing demand. And of course as the size of the housing stock grows, the number of units lost through natural causes increases.

Although demolitions will rise, it is unlikely that conversions will remain a plus factor. The unusual tendency to merge multi-units into single units in recent years has been principally a reflection of the prior extreme housing shortage, when many families were forced to occupy hastily converted quarters. Now that the rental market is easing, these cramped and inadequate accommodations are no longer rentable and landlords have been recombining the small units into normal apartment sizes. This process has now probably been largely completed, so that it may be expected that the usual procedure—that of converting large, older, single-family residences into apartments—will again become dominant.

The net of conversions and demolitions is therefore likely to provide less demand for new housing in the coming years than in the period 1950-55. I estimate that this factor will give rise to a need for something like 125,000 units per year from 1956-58, and 135,000 units a year from 1959-60.

The estimates of non-farm household formation and conversions and demolitions given in the preceding sections indicate a demand for non-farm residential construction in the period 1956-58 of about 975,000 units a year, and in the period 1959-60 of about 965,000 a year. From these figures should be subtracted the housing units automatically added to the non-farm housing stock as cities expand into previously rural areas. This gives a net demand of 950,000 units from 1956-58, and 945,000 from 1959-60.

Most observers feel, however, that the present vacancy ratio is sufficiently low so that a substantial number of additional vacancies can be added to the non-farm housing stock before these vacancies begin to spread significantly to newly-constructed units. No one knows exactly what overall vacancy ratio will cause the impact of vacancies to be transmitted to the

new housing market, but the recent vacancy ratio surveys by the bureau of the census are improving our ability to sense this point of impact. From my own observation of the housing market, considered in the light of the census surveys, it appears to me that a ratio somewhere between 3.5 and 4.0 per cent will begin to affect the new housing market significantly. I have therefore calculated the level of non-farm residential construction which, according to my estimates of household formation and demolitions, will raise the non-farm vacancy ratio to between 3.5 and 4.0 per cent by 1960.

The last two columns in Table II show that, if non-farm residential construction is maintained at 1,100,000 units a year over the next five years, the non-farm vacancy ratio will be about 3.8 per cent in 1960.

What conclusions can be drawn from the foregoing analysis which will prove useful to mortgage lenders, builders, and those in government whose particular interests and duties lie in the housing field? It seems to me that it suggests the following points:

» It is unlikely that the non-farm demand for housing will average over 1,100,000 units annually during the next five years, *unless* positive action is taken to increase the rate of demolitions.

» The residential construction industry can remain prosperous in the 1956-60 period, but the output of the industry will constitute a declining proportion of gross national product. This is significant to economists, and to those in government who are concerned with the maintenance of stability and prosperity for the economy as a whole. It is also significant—with important qualifications depending on type of product, rate of product obsolescence, etc.—to industries closely associated with home building.

» The need for mortgage funds will continue to rise in coming years because of the increase in the price of the average home, and because of the growing size of the total housing stock. But the increase in mortgage demand will be much less than in recent years.

» Many lending institutions which have devoted a large proportion of their available funds to residential loans in recent years should be planning a shift in their operations to adapt future operations to the changing mortgage market. Mortgage lending in foreign countries is one example of an outlet which needs substantial development.

» Finally, if the government is interested in encouraging the housing industry as well as in promoting the general welfare, it should concentrate less on new sources for loanable funds and ever easier and more unsound loan terms, and devote more of its efforts to discovering practical methods for increasing the rate of demolition of slums and outworn structures. The problem in the next five years will not be a shortage of loanable funds, but an insufficiency of demand for new houses. The only way that the demand can be increased significantly above the 1,100,000 unit level is through a concerted effort to blot out the still existing large areas of totally inadequate housing found in many of our cities.

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» REALTY LOOKS GOOD: Prices of modern existing homes—those built in the last 15 years—have remained stable during the last year, while those of older, deficient units have declined, NAREB's analysis of real estate market conditions shows.

Consumer demand for improved living conditions has underwritten market strength for high quality existing homes, while forcing downward prices of older structures, particularly deficient units and those located in less desirable neighborhoods.

Between used housing of relatively recent construction and that built in earlier decades, there is progressively significant value variation. Prices of dwellings erected since 1940 were reported to be the same as, or higher than, those prevailing a year ago in most cities, whereas those for units of earlier vintage were more frequently quoted as lower.

A few areas, influenced by industrial expansion and high immigration, are enjoying a vigorous demand for all types of shelter. A few others, either because of temporary overbuilding or depressed economic conditions, are experiencing price levels below those of a year ago for most categories of single-family properties.

A strong demand for the more modern, adequately constructed existing homes was seen also in transfers of these units during the past year.

A vigorous market for residences built since 1940 was reported.

THE GOVERNMENT-BACKED MORTGAGE LOAN PROGRAMS

What They Were in the Beginning and What They Are Now

This is something a bit different, something which everyone with an interest in the government's programs in the mortgage industry (and from one point of view, that's everybody) ought to seriously consider. Mr. Wood is an economist, a researcher for facts and an evaluator of their significance. He has no ax to grind about the federal role in mortgages, no arguments to advance one way or the other. What he sets forth here is a factual review of the programs, how they began, the economics behind them and the possibility of various developments within them in the years to come. Just how far we have come in these programs is illustrated by the fact that ten years ago, government assumed the risk in only 25 per cent of the mortgages; today that risk embraces 40 per cent of the loans. It should be mentioned that Mr. Wood's views are his own, not necessarily those of the Federal Reserve System.

A DECADE ago, one could have taken a sober look at government supported mortgage loans and come up with the general conclusion that the government's insurance and guaranty of loans on residential real estate has introduced a significant stabilizing element into the operation of the economy.

This general statement might have been supported along these lines:

» By assuming some, all, or a large part of the risk inherent in mortgage loans, the government has relieved mortgage lenders of loss and thereby removed an important source of pressure on the financial system and on borrowers alike in the event of an economic reversal.

» By requiring all insured and guaranteed loans to be amortized by level monthly payments, by permitting large loans relative to property values and thus reducing the need for junior financing, and by encouraging borrowers to spread the payments over long periods, the government's commitments have reduced the costs to home owners (and more generally, real economic costs) of ownership and of mortgage borrowing, and have removed or reduced the cost and uncertainty of renewal formerly so important with short-term mortgages.

» By establishing standards of valuation (and of construction in the case of new houses) the government has removed or minimized the effects of speculative valuation and over-extension of credit in an active market and in the same way, would discourage excessive declines in value and restriction of credit in a weakening market.

» By making mortgages more readily marketable through these influences the government has reduced a serious imperfection in capital markets that contributed to instability at times in the past.

» By assuming rather large contingent liabilities, the government has also acquired a very direct interest in seeing that general economic policies are used in such a way as to help keep real estate markets sound.

Some will recall that even a decade ago, reservations were being expressed on at least two of these particulars:

On the matter of valuation procedures and standards of construction governing FHA's Title VI operations, questions were frequently heard about whether they were all they should be and whether families were not being encouraged to engage in transactions they might later regret. On the matter of the government's incentive to consider general economic policies in the light of their influence on real estate markets, two lines of approach were observable. The first reflected the view that the monetary and fiscal agencies were already giving too much weight to this consideration, and that in consequence the government might be inclined toward inflationary policies.

The second reflected the view that the government's commitments on mortgages, if they had to be met, might seriously complicate the operation of monetary and fiscal policies at a later time.

As the decade has passed, these relationships between the government's commitments concerning mortgage

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credit and economic stability have shown different aspects and have been the subject of both heated discussion and scholarly analysis.

The first four of our broad descriptions of the influences of the government's commitments would still stand, and might be stated more strongly: The government still assumes risk of loss, but on two-fifths of the debt now compared with one-fourth 10 years ago; the long-term, high-ratio, monthly amortized mortgage has been encouraged to the point of now being the standard type, even when not insured or guaranteed; the influence of government valuations and construction standards is sometimes thought of as being too great; and amortized mortgages generally are more readily marketable now than ever before.

In this decade, many other changes have occurred, and two of them should be taken account of here in considering the influence of the government's commitments concerning mortgage credit on general economic stability.

The first is that the safety and liquidity of claims of the public on financial institutions have been further underwritten by the government. Part of this development is the dollar amount of deposits in commercial and savings banks that is insured has been raised, and another part is that the capital invested by the public in savings and loan associations has come to be regarded in practical effect as entitled to the same degree of liquidity as demand deposits in commercial banks.

Concerning the first of our reservations of a decade ago, although mortgages have certainly been foreclosed, it is hard to think of a period in our history when regrets about real estate transactions engaged in have been so few. Some would say there have been many more regrets about transactions abstained from. The second reservation — the relation between government credit commitments and general economic policies—is still a matter on which debate is common, and the position taken on it frequently depends a good deal on the point of view toward another issue, namely, the contribution that the continued and widespread strength of residential construction during the decade has had on the high and relatively stable level of economic activity generally.

If we consider the more than $40 billion of conventional residential mortgage debt held by savings and loan associations, commercial banks, and savings banks as involved in government commitments to maintain safety and liquidity of funds in these institutions, we find that about *four-fifths of all debt on small properties is directly underwritten by the federal government* on either the asset or the liability side of the ledger.

The second important change is that the Employment Act of 1946 states the policy that the Federal Government has a direct responsibility to preserve and promote conditions favorable to economic stability at high and rising levels of real economic output. Influencing the level of residential building is regarded as one of the ways in which this policy can be made effective and terms on government underwritten mortgages are taken to be one of the tools by which the level of residential building may be influenced.

One of the conclusions likely to be reached from a consideration of these first four themes is that real costs of owning, borrowing, building, and investing have been reduced—particularly to the borrowing home-owner, but also to owners generally and to other participants in the real estate market.

Risk of loss to investors has been reduced, initial and continuing costs to borrowers have been reduced, speculative valuations and the costs of market imperfections have been minimized. All four together suggest reduction of real costs and thereby greater likelihood that high and rising levels of real output and consumption in this segment of the economy are that much more sustainable.

These four themes are interrelated however, in complex and sometimes seemingly inconsistent ways, and the fact of interrelation is at times a matter of some importance. When we consider some of these interrelations, the fact of reduction of real costs becomes somewhat less self-evident.

One of the matters on which satisfaction has been expressed in recent months is that FHA and VA mortgages are traded in the highly integrated mortgage market we now have with little reference to the precise character of the property or the precise credit standing of the borrower which serve as security for the obligation. Reliance is put in the valuation and rating systems of the underwriting agencies—with some push supplied, perhaps by the continuing pressures on investors to find outlets for investable funds. We need not question the government's ability or readiness to make good on its undertakings to wonder whether or how much real costs over time will be less in this situation.

The complaints that come to light occasionally at Congressional hearings, in conversations with people associated with building and mortgage lending, and perhaps from a little personal observation may suggest that "building down to standards" has taken the place of an earlier "building down to the market."

Government underwriting has certainly not given rise to a preference for initial cost reduction possibly at the expense of lower ultimate and continuing costs, but it has in some cases provided a mighty authority for the practice and a handy recipient of blame. Whether marketability of mortgage instruments, established on construction standards that may come to be regarded as responsible for higher continuing costs, will turn out in the long run to result in lower real costs to owners, mortgage investors, the government, and even to builders, is not yet clear.

To the extent that borrowers may confuse experience with continuing costs attributable to construction standards with the nature of their mortgage undertaking, such experience may become an element of some importance if we should face a test of stability in residential real estate markets.

Already the point of view has been expressed that, with the mortgagee so fully protected, the mortgagor might be permitted a little latitude.

Another conclusion that might be reached from a consideration of our themes separately is that borrowers' repayment of their mortgage debts has been regularized, both by the amortization process and by removal of the need for short-term second mortgages. This conclusion leads to its apparent corollary that the flow of funds to mortgage investors has been stabilized and made more predictable, and this, in turn, can be thought of as assuring a dependable source of funds for investment in mortgages or in other channels as the state of capital markets from time to time may indicate.

To the extent that irregularity in the flow of investable funds has been a source of instability in the past, this development should improve the prospects for stability in the future.

The fact that amortization has permitted borrowers to put their finances in better order, substituting almost automatic outlays for sporadic disbursements, and the importance the monthly payment as against capital value appears to have assumed in owners' minds, suggests to some that mortgagors, as long as they have the income with which to make the payments, will not be greatly concerned about declines in real estate values.

Such a state of affairs would also contribute to economic stability by minimizing the cumulative effects of a weakening market that we have seen in times past.

The fact of mobility, however, must always be kept in mind. At all times there are some families with incentives to change their accommodations. In making their decisions, they are likely to become conscious of capital values and to take them into account.

Estimates cannot be made with any feeling of great confidence about the amount of debt that is currently being repaid apart from amortization. There is good reason to think, however, that as much as two-thirds of the $15 billion of 1- to 4-family debt which disappeared last year was by repayments other than amortization, and a large proportion of these repayments are made in the course of the sale of property.

If this estimate is even approximately right, it suggests several things:

First, that the large volume of funds that mortgage lenders have had available to them in recent years comes primarily not from a stable and predictable flow of funds arising out of past decisions, but from a source that may be closely related to current decisions about the condition of real estate markets.

Second, that a large part of this mortgage repayment—and of the demand for mortgage loans to replace those paid off—may depend on real estate owners and would-be buyers seeing eye to eye on real estate values.

And third, that any appreciable reduction in the flow of funds attributable to a reduction of repayments of this nature, though affecting net positions very little, might have an appreciable influence on investors' feelings of liquidity and in consequence, their decisions not only about mortgage lending, but also about investments in other lines.

Another point worth noting is that the use of second mortgages seems to be increasing, particularly in periods when mortgage terms available to borrowers are becoming less favorable. A major explanation of this rise in second mortgages is probably the purchase of houses subject to pre-existing mortgages without any legal change in the mortgagor. In such a case, the seller may "take back a second," this being one way of expediting the sale and perhaps of getting a higher price than otherwise.

The inadequate information available suggests that incentives for the use of second mortgages are stronger in the case of government underwritten first mortgages than in the case of conventional, perhaps in part because of the greater time often required to close FHA and VA loans, in part because of the underwriting rules of the agencies, and no doubt for many other reasons.

The broad acceptability that government-underwritten mortgages have attained among investors has undoubtedly meant that funds have flowed more readily from areas of concentration to areas of scarcity than they might otherwise have done. A good case can be made for the posi-

BORROWING FROM THE FUTURE: This has been a period of active real estate markets and, despite strong alternative investment markets, ready availability of mortgage funds. In this period, consumers' feelings of well-being have developed and expanded, and this has led to confidence in the future, and a willingness to borrow from the future to a remarkable extent— to borrow for general consumer purposes as well as on real estate.

tion that this has made possible both the new construction and the mobility of ownership required for reasonably smooth growth of developing areas and regions.

During this past year, however, we have had a sharp reminder of the sensitivity of market instruments to market influences. Less marketable instruments than FHA-insured and VA-guaranteed mortgages could hardly have been the object of such a rapid build-up of forward commitments as took place between the summer of 1954 and the autumn of 1955.

The willingness of investors to commit themselves in the second half of 1954 to take FHA and VA mortgages —in some instances as late as the middle of 1957—added to a general economic revival, supported an unusually large volume of residential starts last winter, spring, and summer. As the interim financing of the loans written under these commitments put increasing strains on commercial banks and savings and loan associations, we had the apparent scarcity of mortgage funds about which so much was said and written during this past summer and autumn. However real or unreal this scarcity was, one should not overlook the materials shortages and price and cost increases which were real enough, and which are attributable in large part to the newly-attained marketability of mortgage loans and the large supply of funds for construction that this called forth early in the year.

Perhaps these questioning notes reflect overly close examination of a set of devices that so far has displayed many more good than bad features. No harm will be done, however, if we bear in mind a few points on which familiarity tends to breed forgetfulness. For a decade and a half we have been in a period of rising personal incomes, high saving, and nominal unemployment with only occasional and transitory reversals.

This has been a period of active real estate markets and, despite strong alternative investment markets, ready availability of mortgage funds. In this period, consumers' feelings of well-being have developed and expanded, and this has led to confidence in the future, and a willingness to borrow from the future to a remarkable extent—to borrow for general consumer purposes as well as on real estate.

Whether the resulting debt is supportable has been a subject of inquiry from time to time and seems again to be gaining in interest.

One of the great difficulties in assessing this question is that we can know with any great assurance only the past—including that recent past that is thought of as the present. Another is that—especially in this field—our knowledge of the past is so poor and, for many purposes, so irrelevant. Our judgments about the future are surmise, based in part on surmises about the past as well as on knowledge.

Among the judgments current today is that neither the debt nor the current claims made by the debt are unduly high relative to income. In other words, consumers have been as greatly in debt before and have still had sufficient income to spend for other things to keep the economy sound. Those who mention 1929 in this connection are reminded that the economy has changed in important ways since then.

An implied assumption in this line of inquiry, is that income, supported now as it is with various government compensating aids, is such a strongly determining influence as to permit neglect of such other elements as may affect developments. Before adopting this assumption it may be well at least to identify some of the other elements and see whether knowledge about them might qualify the judgment.

The element that I should like particularly to mention is the possible influence of capital values on the soundness of the debt. I referred to the proposition that, so long as a mortgagor can—let's say fairly comfortably —meet his mortgage payments and other charges of ownership, he cares little what happens — presumably within limits—to the market value of his property. That is, as long as his income stays up or rises, the mortgagor continues to be as sound a risk as ever he was.

What do we know about this proposition? Very little, I think. Furthermore we are likely to find out little about it by direct inquiry. Few owners are likely to say, even to themselves, that should the market value of their houses go below the outstanding balances of their mortgages, they will take action detrimental to the mortgagee. We have little basis in the experience of the past for judging how mortgagors have behaved in fact. There is evidence, to be sure, from the now out-of-date 1930's to the effect that mortgagors took heroic measures to keep their houses in the face of large declines in values. I do not recall any very satisfactory evidence, however, how successful they were. A perusal of the Financial Survey of Urban Housing suggests that where, in 1934, the number of properties with mortgages greater than the 1934 value was large, the proportion of mortgages delinquent was also large.

Nor need we assume any disposition of mortgagors to "walk away from their mortgages" to see a role for capital values to play. I have referred to mobility and the continuous turnover of ownership — which appears to be quite rapid now. From time to time owners want to sell— perhaps to buy another house, perhaps not—and others want to buy. In this situation, capital values can be disregarded only with difficulty. The seller who not only receives no cash from the buyer but is called on to pay the mortgagee cash to release the mortgage cannot be indifferent to capital values.

This situation, clearly, is more likely to arise under the high-ratio loan— whether made up entirely of first mortgage or of first and junior together—than under less easy terms.

The effect of any such development on friends and neighbors who may have no desire to move and who may be perfectly able to "keep up the payments" should not be neglected. What the effect would be I do not know, but I suggest it is not, on the face of it, negligible.

Perhaps it is true then, that a decline in capital values could give rise to some debt problems without any worsening in owners' income positions.

But is this not self-contradictory? How would such a decline take place without any worsening in owners' incomes? We have become so accustomed during the past decade to account in a summary way for the strength of housing demands under such rubric as "high and rising consumer incomes, large amounts of liquid assets, and ready availability of mortgage credit" that it is easy to lose sight of the restraint that has been placed on changing tastes by the high degree of utilization of the housing stock. From time to time we have had short glimpses of adjustments being made in the market. In 1948-49 and again in 1953 reports were common that the market for some kinds of houses was weak. Very old houses, two-bedroom houses, badly-located houses were variously reported as selling slowly, or as over-valued, or even as vacant. But economic recovery was quick enough and extensive enough on those occasions to stop these adjustments before they became serious in themselves or gave rise to more general reactions.

Last year, the Bureau of the Census has reported, vacancies in large apartment projects were quite high, perhaps as high as in any defined segment of the housing market except the dilapidated. This may mean little. But also it may mean that people similar to those who in former years bought after debating apartment dwelling and house ownership will now, in larger proportions, rent. Whether this would result in a decline in the number and change in the kind of buyers to an extent significant for capital values is not at all clear. The point may, however, illustrate, one approach to the hypothesis that, once the sense of tightness diminishes in the market, dwelling units will not necessarily retain their present relative values. There is no requirement, however, that all real estate values decline uniformly to raise a meaningful problem.

If we agree that a problem might arise in this fashion, we have agreed to consider the possibility that capital values may play a role in determining the soundness of the debt, that mobility of ownership may help set the stage, and that neither the role nor the stage-setter requires ill-will or bad faith on the part of mortgagors.

FOUR-FIFTHS OF THE DEBT: If we consider the more than $40 billion of conventional residential mortgage debt held by savings and loan associations, commercial banks, and savings banks as involved in government commitments to maintain safety and liquidity of funds in these institutions, we find that about four-fifths of all debt on small properties is directly underwritten by the federal government on either the asset or the liability side of the ledger.

If the problem is limited within the confines of changing relative values without a general decline in property values, is it not bound to be relatively unimportant? This may be the case, as it was in 1948-49 and in 1953. But although a problem could, perhaps, start without a general decline, it would not necessarily end there.

Adjustments in prices presumably cause buyers to reconsider their preferences, and many models could be constructed—though not by me—to estimate the outcome. I find it sufficient to think that the degree of tightness of supply will influence the extent and sequence of any declines we may experience. Worth thinking about, too, is consumers' attitudes toward their future incomes as well as their current incomes. Does the prospect of stability of income rather than continued rise affect consumers' decisions about capital values and debt?

Perhaps we have gone too far afield into fascinating but frustrating speculation about how real estate adjustments might take place. In any case, we are in a position to return to government credit commitments and to raise some questions about how they might influence or be influenced by these hypothetical developments.

To the extent that appreciable declines take place in values of properties mortgaged with FHA-insured or VA-guaranteed loans, the mortgagees will suffer little loss. In many cases, the agencies will become the owners of the properties and eventually may have claims against the former owners. The situation will be somewhat different in the case of other property owners and mortgagees similarly situated except for the fact that the mortgages are not government underwritten. In most cases, with lower loan-ratios, the owners will bear any loss, and this loss will generally be realized in the course of a sale to a buyer who will find himself, at least temporarily, on a sound footing. In some cases, however, the holder of a second mortgage will bear the loss, perhaps with a claim against the former owner.

Something will now depend on both the magnitude of the whole development and the policies followed by the government agencies. If the whole thing is small, the government's policy makes little difference except to its own accounts. If it is larger, and if the government's holdings are appreciable, disposal policies are likely to be important for its own accounts, for defaulting debtors, for other mortgagors, and even for owners with clear title.

Are there obvious policies the government can adopt and be sure that its influence will be toward stability in the market? We may note that two main objectives of policy might be set up:

First, to aid in an adjustment of relative values that is clearly in process so as to achieve a sustainable structure of values; and second, to minimize mortgage defaults. Other objectives might also be set up, such as minimizing habitable vacancies, but for the present, let us consider this pair.

To achieve the first objective might well call for prompt recognition of new price levels; but a decision to sell at going prices as these develop rather than hold for a possible improvement

in the market could be expected to influence the prices received by other mortgagors, and by owners free of debt. It might also affect the subsequent foreclosure experience of the agencies themselves. To achieve the second objective might call for price maintenance and a long holding period, with constant decisions to be made about whether to keep properties vacant or to rent them, and if to rent, at what rents.

With, and perhaps in advance of, decisions on these matters the agencies would have to make decisions about the terms on which they would insure or guarantee additional mortgages. In pursuance of the first objective—aiding price adjustment—they might decide to be restrictive, again with price effects on the whole market. Or, in pursuance of the second—maintaining the soundness of the debt—they might decide to be liberal, and in this case also have price effects and perhaps become insurers and guarantors of a large proportion of refinanced mortgages.

We need not assume that any one of these policies is adopted uniformly for all markets or is continued unchanged through the whole period of any difficulty. Nor need we assume that any problems we may anticipate will arise because it is government agencies that have to cope with the situation. Any private institution or group with a stake in both ownership and mortgage debt that found itself in a position to sell or hold enough properties to influence the course of developments in a particular market would face very similar problems.

As long as the difficulties are minor, a skillful—perhaps intuitive—dealing with day to day developments might work out very well. Even a major difficulty might become minor under such an approach. The fact still remains, however, at least for analytical purposes, that if market forces give rise to appreciable changes in relative prices (leaving aside the problems of a general decline in prices), the extent and composition of the mortgage debt is such that conflicts are very likely to arise in defining the stability that is to be sought.

In a situation of this kind, what would appropriate policy be toward financing of new construction? The kind of market we are considering is a little different from what we have experienced in the past few years. The pressure for housing at going prices and on current credit terms is not so great, and a reasonable expectation might be that consumers are comparing old and new houses more carefully. Perhaps one of the developments would be that at least in some markets and in some price ranges, new houses could not be built for the prices being set in the market for old houses that consumers judged to meet their needs just as well.

In taking account of the objectives of the Employment Act, should the government make special efforts, by whatever means it has available, to keep housebuilding and new house sales at high levels in the interests of income and employment? Or should it regard further additions to the housing supply as complicating the value and debt problems it and others are already facing? Again, degree and circumstances will make a difference, but intelligent day-to-day management will require careful consideration of the emphasis to be given to the several objectives of stabilization.

Any disturbing tone that these remarks may have can, I hope, be attributed to the fact that the reassuring aspects of government mortgage commitments have been brought to attention on many occasions and are reasonably well known. Furthermore, many administrators and others are by now skilled in the details of these aspects, and can answer most questions about them.

Concerning other aspects, there are questions that at least I cannot answer including, in large measure, the question whether these other aspects even exist. On the assumption, however, that the possible problems raised here are neither frivolous nor based on too great ignorance, I shall like to try to sum up by suggesting some questions which, as a research analyst, I am inclined to think research might help us understand.

We have estimates, good within tolerable limits, of the amount of residential mortgage debt outstanding, of the amount that is directly government underwritten, and of the amount held by the major types of holders. We have only the most rudimentary guesses, however, about the distribution of this debt among housing markets or types of property, and about the values of the mortgaged properties or how prices of these properties are changing. Economic changes affecting real estate take place in local markets, and in significant respects, developments in some markets do not offset contrary developments in others, regardless of the fact that statistics may be averaged. An addition to understanding then, might be to know how values are changing relative to debts for important classes of properties in important market areas, as well as to know how incomes and liquid assets of debtors are moving relative to mortgage and other debts.

Do new houses compete for buyers with old owner-occupied houses or with apartments and rented houses? From market to market the answer may be different, at least in degree (and these are questions in which matters of degree count); on the answer may depend whether, and with what weight, we should pay attention to rents and vacancies, or to house prices and credit arrangements in assessing the ways in which new building and the standing stock of houses react on each other.

How are relatively new houses faring in the market relative to others? Is there any difference between the new houses built to government standards and those built otherwise? Is there any difference between what sellers of the two groups think of as their acquisition costs? Do any such differences influence owners' and sellers' attitudes toward their debts and toward the market?

Clearly the mortgage debt is being repaid. The rise in outstandings in any period is smaller than the amount of loans made. How is it being repaid? By whom? Under what circumstances? Investigation of these questions might throw light on developments both in real estate markets and in capital markets. We do not know, for example, how much of the current gross repayment is amortization and how much is repayment of other kinds, notably that which usually takes place on the sale of a mortgaged house.

Admittedly inadequate studies of the subject suggest that, on the whole, the debt is becoming younger on the average, and that the proportion of the debt being repaid by amortization

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President's Page

A FREE RATE FOR FHA AND VA MORTGAGES WILL MAKE THE DISCOUNT SYSTEM UNNECESSARY

BECAUSE the demand for investment funds in 1956 promises to press hard upon even the enlarged volume of savings that is to be expected, money conditions are likely for some time to continue to be relatively tight and interest rates relatively high. Consequently, the troublesome question of discounts on FHA and VA mortgages is bound to remain with the mortgage and investing industry.

The outlook has its political as well as its economic implications; and one should not be ignored any more than the other. The political aspect of interest rates and discounts is serious for everyone in the mortgage business. It is something we shall have to face up to. In doing so we should first review what occurred generally in the mortgage market in 1955.

Lindell Peterson

In the first place many people do not realize that even though there were continued official worries during 1955 over a "lack of credit", expenditures for new construction—and its financing—reached an all-time record of $42 billion.

Life insurance companies alone invested an estimated $6.5 billion in mortgages during 1955, according to the Institute of Life Insurance. This was nearly $1.2 billion more than in 1954, and the greater part of the 1955 mortgage investment was for home buying or building. Of the 1955 city mortgage acquisitions, $3.2 billion, or just about half, were conventional mortgages. VA mortgage acquisitions totalled about $1.9 billion and FHA acquisitions totalled about $900 million. Today's aggregate mortgage investment of life insurance companies is around $22.5 billion greater than it was at the end of 1945.

With such a tremendous demand for mortgage investment by life insurance companies, and the accompanying similar demands upon savings banks and savings and loan associations, and the tremendous demands for other types of credit, it was inevitable that the cost of credit should increase. It did increase in all fields. For example:

» The *discount rate* charged by Federal Reserve banks to member banks was raised several times during 1955 and ended at 2½ per cent, the highest since the early thirties.

» The *prime rate* charged by commercial banks to the biggest borrowers with the best credit ratings now stands at 3½ per cent, about double what it was in the early part of 1955.

» The rate on finance company paper rose during 1955 from 1¼ per cent to 2.8 per cent, the highest in years.

» *Bankers acceptances,* which are negotiable and are traded in the open market, were marked up many times during the year from a charge at the year's start of 1¼ per cent; the current rate is 2.38 per cent.

» Nor did the Federal Government escape the rise. Treasury bills, the shortest-term security sold by the United States, rose to a rate of over 2.6 per cent in December, compared with 1.3 per cent in December of a year ago. This is the highest interest rate paid in such borrowings since 1933.

From this, it may be seen that during 1955 the entire interest rate structure moved up across the board where it was free to move.

Such a general increase would have also been reflected in rates earned by FHA and VA loans, had those rates been free to move. Since the effect of legislative and regulatory restriction prevented a free movement of the interest rate on these loans, the rise in the cost of money had to be handled in some other way or else investment funds would have shifted to more profitable areas.

The rise in cost was handled by the use of discounts.

The political aspect of discounts and of interest rates arises out of the widespread misapprehension that the price of money in the financial markets can be fixed by legislative action. We have learned the lesson on government price fixing in respect to other goods and services. We have learned—at least we should have learned—that only in a rigidly state-

directed economy can price controls be made to work and then only with great difficulty.

Yet the idea persists that the money market is essentially different from the commodity markets, and that, by making a legislative determination as to what the interest rate on government insured or guaranteed mortgages ought to be, money will be dependably available at that rate.

The trouble here is that, no matter how logical the apparent basis for the rate that has been selected, or how cogent the reasons why the selected rate *ought* to be effective, the maket-place has its own logic and its own reasons, which are likely to be at variance with those of legislators and administrators.

The logic of the market-place is the logic of competition. In the bidding for money by the various classes of investment, rates get established at levels at which each class gets the volume of funds it is willing and able at the time to pay for.

It is this logic which those who would fix interest rates wish to avoid. It seems to them to be too cold a logic, and too indifferent to the requirements of human welfare. Their objective is to isolate mortgage activity from the rigors of competition and to give it a favored place in the market.

The attainment of this objective, however, encounters many difficulties. If a fixed rate is seriously enforced, especially at a time when investment demand is high and borrowers are willing to bid up the interest rate in order to get the funds they want, the result is simply to divert funds from mortgages to areas of higher yield. To prevent the complete starvation of mortgage demand, government can then, if it so determines, come to the rescue with various kinds of direct or indirect government financing. FNMA was used in this way during the early postwar years. And direct lending to veterans has been instituted to the same purpose.

However, when government attempts to beat the market, it faces a massive task, since the demands on it for money at cheaper than market rates is found to be insatiable. To prevent the complete displacement of private funds under these circumstances, it becomes necessary for government to control all interest rates, and from that—unless inflation is to run riot—to take the step to priorities, allocations of materials and general price controls.

Our experiences with these methods in the postwar years have not been happy. They caused both serious disruptions in the supply of materials and the most severe inflation of the century. But, despite the failure to effectuate a planned economy, and despite the abandonment four years ago of the whole panoply of controls, the idea has persisted that, by saying so, veterans and FHA borrowers can get loans at 4½ per cent interest irrespective of the intensity of the demands for funds for other purposes.

In the present instance, it has been possible to maintain this posture by introducing the device of discounts. The government has continued to say —and apparently to believe—that the veteran or FHA borrower shall get his loan at the designated rate. At the same time, it has said that the builder or other seller of a house, in order to facilitate the transaction, may arrange the financing at a discount, *provided that the discount is not passed on to the home buyer.* We have also said that an original lender on a mortgage may sell the mortgage to another investor at less than par, again with the same proviso against passing on the difference to the borrower.

There can be no question that, during the present period of stiff competition for funds, discounts have served the purpose of keeping the market for FHA and veterans loans—particularly for loans on used houses—better supplied with funds than would otherwise have been the case. They have also been useful in distributing more funds to areas remote from the centers of capital accumulation than would have occurred if discounts had not been permitted. But it should be evident by now that, as a means for accomplishing these purposes, discounts, especially under the present theory that they are absorbed by the builder or original lender, are not a satisfactory substitute for a freely moving rate of interest.

The assumption that, because an outright charge is not made to the borrower, the discount is not borne by him is largely fiction. Except in unusual situations and for short periods of time, a discount, like any other cost, is almost certain to be reflected in the asking price of the property. Yet, under the present system, it is a hidden and unidentifiable cost, lacking the straight-forwardness of the interest rate as it is applied to conventional lending.

Because of this very situation, many lending institutions do not care to adopt the present discount system as a general practice. Instead, when the demand for funds forces a rise in investment yields, these institutions tend to reduce their allocations

for mortgage loans and to look to other areas where yields are frankly expressed in changes in the interest rate. The existing discount system, therefore, is not an efficient one for channeling the flow of funds.

At the same time, the mortgage banker is not criticizing those institutions which, under the conditions prevailing during recent months, have taken insured and guaranteed loans at a discount. Quite the reverse; he is grateful to them, since without them many home buyers would have been without sources for the funds they needed. Discounts provided the only means by which the institutions could justify—to the numerous small savers for whose funds they are accountable—their staying in the mortgage market in any substantial way.

The mortgage banker's only regret is that the discount system does not have wider appeal. If it did, the discount rate undoubtedly would be lower and the mortgage market would not have suffered the disruptions and distortions it underwent during the latter half of 1955.

The typical mortgage banker is in a good position to discuss this situation, because his position in the market is a rather neutral one. Typically, mortgage bankers do not invest funds that have been entrusted to them by the public. While in many instances they originally close loans with their own funds, in most cases these loans are shortly thereafter assigned to permanent investors such as savings banks and insurance companies. The mortgage banker's income is derived from small and relatively constant charges made in the initial placing of the financing and from the allowances made by the permanent investors for servicing the loans. These allowances do not vary significantly with changes in money conditions.

Thus, the mortgage banker's success is determined by the number of loans he can place rather than by the yield on the loans. In order to be successful, he must find borrowers, which, in turn, means that he must seek the most favorable terms for borrowers that are available at any given time. Anything that works to the disadvantage of the borrower works also to the disadvantage of the mortgage banker.

What, then, is the answer to the question: "How may we improve the situation?" It will do no good to exhort. Exhortation can not bring money into the market, when the primary obligation that institutions have is to obtain for their savers the best yield available. Nor will it do any good to attempt to regulate discounts. Regulation would only add rigidity to rigidity and serve further to diminish the flow of funds. And it would certainly be unwise to attempt to make up for the obstructed flow of private funds by government lending, for that could lead only to further disruption and inflation.

The only way out is to face the issue squarely. We have two choices:

The best solution would be to allow the interest rate on FHA and VA mortgages to be set as freely in the market as is the conventional loan rate, trusting in the superior security of the insured or guaranteed loan to give it a preferential position. If, however, we are determined to keep a nominal interest rate which may occasionally become a sub-market rate, then the discount device should be freed from its present equivocal position and made a straight-forward market mechanism, with the borrower paying only what, almost certainly, he is paying by indirection. It would be far better for the borrower to be paying the discount as an out-and-out cost of money rather than to be paying it as an indeterminable part of the cost of the house.

Were either of these courses to be followed, the tendency to inflate house prices would be lessened and the competitive nature of the money market would be fully revealed. To follow any other course will be to expose the mortgage market to repetitions of last year's disruption and, from time to time, to deprive numerous borrowers of the benefits that the law has sought for them.

The welfare of potential home buyers is not advanced by creating conditions that make it impossible or unnecessarily costly to borrow. All mortgage bankers, and indeed all persons interested in the money market, whatever their specialty, should have the courage to keep hammering on this fact, for they are doing the Congress, the veterans and the public generally a service when they do. The only objective is a smoothly operating, broadly functioning mortgage system, free from artificial obstacles to the flow of private funds. This is a worthy social objective and one that should be proudly and confidently defended.

Lindell Peterson

PRESIDENT
Mortgage Bankers Association of America

Voice of the Home Office

How Valuable Am I to My Investor?

Ask yourself these questions: Is my financial position strong, is my management keeping step, with no dependence on one-man operation, am I growing with the needs of my investor?

HOW can I best increase my value to investors?

This question has been posed countless times—and answered just as often. In most any discussion the familiar servicing principles are brought out, points such as care in underwriting and assembling submissions, accuracy in accounting, and an aggressive collection policy. Likewise, the necessity for being able to compete with other mortgage lenders as to rate is placed high on the list.

On reflection, however, aren't all of these qualities the marks of a top quality mortgage banking organization? How can I best increase my value to investors? Perhaps one should first look to organization, both personnel and financial.

The latter point, financial strength of an organization, is certainly important. The correspondent of small means is limited in scope of activity and may be handicapped as to competitive position. For example, the ability of a strong correspondent to secure construction funds for large-scale builders or to provide a source of funds for customers in times of mortgage stress, assist that type of correspondent in obtaining higher quality loans at more favorable prices and yields than a small competitor not blessed with such resources. Obviously, every correspondent would like to increase his financial resources.

Of greater importance than financial resources, however, is an organization's personnel, its management. And management is a subject which every correspondent, regardless of size, must deal with. Most mortgage banking companies are organized by one man. This operation is satisfactory for a time. All phases of a limited operation can be supervised by a single person. But as operations expand, one-man performance of all functions becomes more difficult and less effective. One person cannot be an expert in all aspects of real estate finance. Even if a person is proficient in many departments he cannot take time to directly supervise every activity of an expanding business. One-man leadership also leaves unanswered the vital question, "What happens to your business if anything happens to you?"

These problems appear to have but one basic solution—depth and spread of management. An organization having a broad management will have experts in all phases of mortgage servicing: origination, construction, analysis of economic trends in the area serviced, legal and other closing matters, collection and accounting. The pattern also will produce depth of leadership, the most positive insurance against management collapse upon the death or transfer of one man.

Attaining depth and spread of management is obviously a $64,000 question. Every forward-looking enterprise in every business is desperately trying to attain it. Again, there is no easy solution. Merely hiring additional male supervisors does not produce depth of management. Men of definitely superior ability or young men who show promise of ability must be sought out and made an integral part of an organization. Affording such people will mean a sacrificing of current profits, or it may mean offering participation in the ownership of one's company through stock plans.

The above thoughts are admittedly generalized and are not set forth as an all-encompassing formula. The proposals may not be attractive to some correspondents; a suggestion of distribution of ownership of one's business or a sacrifice of current profit may seem drastic. Before dismissing these views, however, reflect for a moment on one final question—Why is increasing my value to investors imperative? Haven't I done a good job for years?

A look at two general conditions provide an answer.

First, are the needs of investors static? Certainly they are not. Consider the phenomenal asset growth of only one segment of mortgage lenders, the life insurance companies. As an investor grows, so must the correspondent increase in strength. An investor may possibly develop a one or two million dollar portfolio with a small correspondent. An investor cannot afford to increase this account to five or ten million dollars, however, unless the correspondent has developed depth of management and financial strength.

Second, what is the competitive status of the mortgage industry? Ever since World War II, mortgage banking has been generally profitable. Construction has expanded rapidly, the economy of the nation has held at an almost uninterrupted high level and, generally speaking, mortgage funds have been adequate. These circumstances have encouraged a tremendous growth in the number of mortgage servicing companies. The field is now becoming crowded. In addition, the trend in the development of most industries points to the concentration of business and consequently of profit in the most efficient and generally larger units. Will concentration occur in the mortgage banking industry? Probably it will. Has not the trend already started? Consider the increasing number of mortgage bank-

(Continued on next page)

Voice of the Correspondent

This Business Needs More Research

It may be true that, of all businesses, less research has been done within and about the mortgage industry than any other—a condition that must be changed if we are to grow.

TO START this article with some observations on silk stockings, glass fishing rods, and wood shafted golf clubs would be reader suicide, but maybe it is more relevant than you think, and particularly relevant to the mortgage banking business. Ask yourself where you could buy a pair of silk stockings for your wife, or get a set of wood shafted golf clubs. These were common items in your home not too many years ago, but they have completely disappeared. The reason is found in one single word—*research*—a word that has become the day to day tool of every industry and of all large companies. Ford is spending $150 million on a new Research Center; Republic Aviation places $12 million into expansion of research facilities; and the electric machinery industry spent $180 million in one year for research.

How much did the mortgage banking industry spend for research on basic problems in any one year?

If our members each average only $15 million of servicing volume, then we have approximately $20 billion of loans on our books. At an average servicing fee of ½ per cent, this is an annual gross income of $100 million. Would $50,000 be too much for such an industry? Actually it is too small; but until our research program is fully developed, it is an adequate beginning.

How long have we talked about the cost of acquiring business? What can we show as the *actual cost* of servicing our loans? Two of the most critical operating costs of our business are still relatively unknown factors. At what point should IBM accounting be used and how much will it reduce expenses? Can anyone prove exactly what IBM will do when we do not even know our basic servicing costs?

Let us view this problem from another position. In 1948 life insurance companies owned $10,833,000,000 of mortgages, and in 1955 that figure will be about $28 billion. That is a tremendous growth and we have grown with it. We have grown in size but have we grown in knowledge? Not as long as we fail to do adequate basic research for our industry. That should be cause for real concern, but take a look at the years ahead.

On the basis of people now born, people who will need homes that must be financed and people who will buy life insurance, what happens to the above figures? In ten or twelve years, that figure of life insurance company mortgage holdings may well increase to $50 billion. Can we tell our investors that we are prepared to handle that business? Not unless we meet the issue of solving our industry's problems by immediate and continuous research. We are long overdue and have much to make up for in this field. We are faced with a growing and expanding industry, one that must operate on facts and not guesses, one that is daily creating new problems with old ones still unsolved.

We talk of buying mortgage companies. Do we know at what price they are profitable and at what figure they become unprofitable? We expand with branch offices, but what figures do we have to show the results of this expansion? Do we have methods and procedures for branch office operations that show which method is sound and which one is impractical? We are competing for young men with industries and companies that offer pension plans and profit sharing opportunities. Do we as a group have data to show how these have been used by mortgage companies and what plans should be used?

We should always remember that our performance as individual mortgage bankers is only as good as the reputation of our industry. You have a system of mortgage loan correspondents or you do not. We must visualize this problem as a mortgage banking industry problem and we should attack it on that basis. This means to do the job with and through the Mortgage Bankers Association of America. This means to establish a research fund sufficient in size to do a professional job on our basic problems. Our industry is one of the major segments of our economy and we can retain our position in it only if we live up to our responsibility to it. The greatest responsibility we have is to plough back into it new knowledge, new facts, new methods, new and trained personnel. All of these come only through intelligent and adequate research. We should not delay one more day.

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ers servicing $100,000,000 of loans. Taking all of the above factors into account, competition in mortgage banking seems destined to increase much more sharply than in the past.

"Why must I increase my value to investors?"—the requirements of investors are constantly rising and a more competitive future certainly lies ahead. Can your organization and financial strength stand the test? Perhaps some soul searching is in order now.

WHAT'S AHEAD FOR BUSINESS

That event on the MBA program which seeks to analyze and evaluate the basic factors which determine the business atmosphere is the annual "economic retreat" at New York University. This year's was the 11th in the series. Every factor which has a bearing on the business was up for scrutiny—demand for mortgage funds and supply of same, possible price of money, what the government is likely to do and not do, prospects for a continued high volume of housing starts, etc. Mr. Loll was there and this is his account of what the experts think.

By LEO M. LOLL, JR.

Instructor in Corporation Finance, New York University Graduate School of Business Administration

JANUARY is the time for stocktaking, for inventory, for looking ahead, for gauging future prospects—and the mortgage industry is no exception. The occasion for mortgage men is the annual Senior Executives Conference sponsored jointly by MBA and the Graduate School of Business Administration of New York University. This year was the 11th time for it, the oldest part of MBA's educational program. More than 135 were there and many more would have attended had there been room to accommodate them.

MBA President Lindell Peterson, in his opening remarks, said:

"The programs which have been presented here have built a record commendable beyond expression. On ten previous occasions since 1945, New York University, under the guidance of our friend Dean G. Rowland Collins, has provided mortgage banking executives with a timely appraisal of the country's economic conditions and monetary policy development as they effect our industry."

Every aspect of the economy was explored.

Most of the discussion revolved around "Mortgage Lending in a Period of Rationed Credit." Two speakers, Dean G. Rowland Collins and Dr. Marcus Nadler both of NYU's Graduate School tried their hands at general economic prognostication. Dean Collins advanced several Elements of Weakness in the American Economy, followed by Dr. Nadler's suggested Elements of Strength in the American Economy. They were in complete agreement on two important and fundamental points:

>> That barring some major unforeseen contingency such as a nuclear holocaust, the long-run growth and prosperity of the American economy is as assured as anything can be.

>> No major depression appears in the making at the present time but it is entirely possible that 1956 will be a year, as Dean Collins puts it, of "rolling readjustment" or as Dr. Nadler calls it, of "moderate decline." They both felt no one could know for sure.

Dean Collins prefaced his enumeration of possible 1956 trouble spots with a glowing tribute to the magnificent new business record written by the 1955 economy—a record achieved by new peaks in practically every section of our economy. He proceeded with the task of mapping prevailing economic winds that might, in 1956, cast a pall of inclemency over our rosy economic climate.

"Business activity in 1956" Dean Collins said, "is bound to depend largely on the course of effective demand. Whether our business activity continues to rise, whether it pauses, whether it recedes, is very directly tied to the action of three major categories of expenditure: *One,* governmental, federal, state, and local expenditures in goods and services; *two,* private expenditures by business and industry for inventories, for plants, for equipment; *three,* private expenditures by the consumer for homes and other durable goods, for non-durable goods and for services. If those three sources of demand, taken all together, fall below the levels of 1955, then we are going to slump in 1956.

"In 1955, it was the consumer who provided the oomph for the expansion. To state it simply, he went on a spree. He increased his spending for homes and other durables by 25 per cent and his spending for non-durables and services by about 5½ per cent. True, his 1955 disposable income went up, but only about 7 per cent. Thus, after a New Year's Eve celebration that cost an estimated $8 million for horns, noise makers, hats and crepe paper alone, America's consumers awoke January first to find a $2¾ billion lien on their collective monthly incomes. One out of every eight of their after-tax disposable dollars was pledged for periodic installment repayment."

Dean Collins pointed out that in 1955 the personal and consumer debt of the American people, plus all mortgage debt, increased by about $19½ billion. The $6 billion increase in 1955 consumer installment debt was more than ten times as great as the $500 million increase that occurred in 1954. In the past the consumer has always cut back on his buying whenever he has almost reached the point where the current phonograph record puts him, "he owes his soul to the company store."

Dean Collins stated strongly that he does not in any way object to installment debt *per se*. However, he felt that the unusually high installment commitments made by the American consumer in 1955 will cramp his abil-

ity to make new cash purchases in 1956.

This lessened consumer purchasing is regarded by Dean Collins as the most critical weakness of 1956. The third major weakness in the economy as seen by Dean Collins is the deteriorating farm situation.

Residential construction will be a fourth element of weakness.

"Housing starts fell off about ten per cent between mid-1955 and the year-end and the rate of housing starts drifted down throughout the year—this trend will likely continue during most of 1956. It is impossible to tell how much of the recent slide in residential construction is due to tight credit conditions and how much of it is being caused by supply catching up with demand. Certainly during 1955 the mortgage lender has had to live and work with a special, direct, qualitative measure of credit restraint as well as with the overall quantitative tightening of credit exercised by the Federal Reserve Authorities. However, I am inclined to believe that for a good many moons now, residential construction has been overtaxing both recurring demand and the amount of savings available to finance its operations."

Various restrictions imposed during the past year by the Federal Home Loan Bank and the FHA have been relaxed but Dean Collins does not feel this will help increase residential construction much, at least not without complementary quantitative easing of overall money rates by the Federal Reserve. He went on to say:

"Economically speaking, I personally do not look for any slackening of the Federal Reserve tight rein on the

Table talk at the Conference: Dr. Marcus Nadler, MBA President Lindell Peterson and Dean Collins.

Also there, Guy T. O. Hollyday, MBA Past President and chairman, The Title Guarantee Co., Baltimore, between the speakers he introduced to the fifth session of the Conference: Dr. Jules I. Bogen and Adjunct Professor Martin Gainsbrugh, both of the NYU faculty.

Also there, Frederic S. Bayles, president, New Jersey MBA and vice president of The Garden State National Bank, Teaneck, New Jersey, with Professor Raymond Rodgers of the NYU faculty.

money market unless and until the Reserve's index of industrial production drops to about 138; unless and until unemployment starts to climb; unless and until installment credit extensions begin to decline fairly sharply."

Dean Collins reiterated his feeling that new political developments could substantially alter many current regulatory policies, but cautioned that "certainly no thinking representative of the housing industry, I take it, wants to make credit risk rate a whipping boy for the decline in starts that is going on, if other fundamental causes, such as saturation of demand, and/or shortage of savings are really operating to produce a decline."

He expects 1956 expenditures by the various governmental units to increase moderately over the 1955 levels. Thus, starting a reversal of the rapid shift from governmental demand to private demand that characterized much of the period of 1953 to 1955.

"Business in 1956 can't go on expanding at the almost unbelievable speed of 1955 without creating dangers that really would be serious. The present credit squeeze is not directed against a sustainable high level of activity. Rather, it is aimed against the dangers of brimful employment, and as a constructive policy it is directed toward maximum employment, not brimful employment."

Dr. Nadler started his comments by stating the incontestable fact that nobody really knows what the future holds.

"At the same time," he said, "maybe taking into account all of the forces operating in our economy, if we do

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>> ON THE COVER: At the MBA-NYU 11th annual Senior Executives Conference, across the top, some staff members—W. W. McAllister, chairman, Federal Home Loan Bank Board; J. Maxwell Pringle, Pringle-Hurd & Co., Inc., New York; and Dr. Roy L. Reierson, Bankers Trust Company.

"The Class of '56" included two students long in attendance. Senior Associates of the Conference Certificates were awarded to Milton T. MacDonald, president, T. B. O'Toole, Inc., Wilmington, MBA past president and Thomas E. Lovejoy, Jr., president. The Manhattan Life Insurance Co., New York. With them, Lindell Peterson, MBA President, and Dr. G. Rowland Collins, dean of the NYU Graduate School of Business Administration.

The subject is education. Left to right, Addison K. Barry, member, MBA Educational Committee and vice president, National Newark & Essex Banking Co.; Dr. Roger F. Murray, associate dean, Graduate School of Business, Columbia University and Carey Winston, chairman, MBA Educational Committee and president, The Carey Winston Co., Washington, D. C.

Below one of the sessions and, right, a workshop report by MBA Past President Milton T. MacDonald. At the table, are George B. Underwood, Irvington, N. J.; Mr. MacDonald; R. H. White, Minneapolis; Dr. Joseph E. Hughes, White Plains, N. Y.; Charles H. Robinson, Tarrytown, N. Y.; Dr. H. W. MacDowell, NYU; Dean G. Rowland Collins, NYU; Mr. Peterson, Chicago and Professor Rodgers.

not indulge in wishful thinking, we will be able to reach a conclusion and the chances of going wrong will not be very great. Therefore, the first fact I would start off with is this: that our economy is a free economy and we hope it will remain a free economy. And an economy like ours, where the optional demand for goods is very high, where the standard of living of the people is high and rising, is bound to have its ups and downs.

"The United States has become a nation of middle class people, and George Bernard Shaw once said that 'the middle class woman is the greatest spending machine ever invented.' Who can tell what the American woman will do with her money, particularly when the options at her command are very great and when only about 50 per cent of the total expenditures go for necessities. In 1955, the two-toned car was irresistible to the American woman and nearly eight million were sold. In 1955, the no down payment loan was irresistible to the American veteran and we started about 1,300,000 homes. The over-borrowing on consumer credit, maybe the over-building of the homes and the over-accumulation of inventories, reflected the mood of the American people. They were in a spending mood and they spent very freely."

Looking toward the economic prospects for 1956, Dr. Nadler continued, "'Disposable income in the United States in 1956 will be larger than in 1955. The people will have the money to spend if they want to spend it." In support of his prediction, Dr. Nadler advanced the following points:

"On March 1st, the minimum wage will be raised from 75c to $1. This will affect directly about two million people. And if you give to one man who now makes 75c, $1, you may have to give to the next man who now makes $1 perhaps $1.15, and therefore, the wages of people in the lower income group will increase."

"The demands of labor will in all probability be as high in 1956, if not higher than they were in 1955. Organized labor today employs first class accountants, lawyers and security analysts, and they will have analyzed the profits of American corporations carefully, and they look at profit before taxes, not after taxes, and they will make their demands accordingly."

"This is an election year and, irrespective of the demands of the President that no cuts in taxes take place, I'm not so sure that they won't cut taxes if business activity turns down somewhat."

Dr. Nadler further predicts that in 1956 industry will continue to be a

large buyer of machinery and equipment. Unfilled orders in the hands of industry are large. New capacity is needed in many areas. Labor costs are going up and productivity competition is keen, and in order to remain competitive he feels industry will have to buy the latest labor saving devices.

Another element of strength in the 1956 economy, pointed out by Dr. Nadler, was the fact that by the end of 1956, the U. S. population would have increased by about 2½ million. Not only is the population increasing, but the standard of living of the people is rising with it, thereby creating new demands for commodities and services.

To Dr. Nadler, the great underlying perpetuating strength of our economy rests upon the demonstrated ability and willingness of the American people at large to readjust themselves to new economic philosophies, and new economic doctrines; the American government of checks and balances that precludes the danger of dictatorship, thus permitting business men to plan into the future regardless of whether there are Republicans or Democrats in office; and, finally, the dynamism of the American economy itself. According to Dr. Nadler, this dynamism of the American economy rests upon "demographic forces, upon research and upon the willingness of management to risk, to experiment, to try new methods to produce new commodities, to use new methods of distribution, new methods of financing and new methods of how to deal with labor and human relations."

Dr. Nadler went on to say, "To be sure, we have overdone a bit in 1955, but our economy is as strong as can be. There is nothing wrong with our economy that Regulation X, and I say X deliberately, and Regulation W, could not cure."

He made it clear that, although the government can stimulate or retard economic activity by opening or closing their faucet of credit restraints, the real strength of the American economy is an inherent strength. Dr. Nadler concluded, "So long as the human element remains as it is today, so long as the political institutions remain where they are today, so long as we have our ingenuity to produce and distribute, surely we will have our ups and downs, but the next up will be higher than 1955."

The Wednesday morning topic was

"The Shortage of Mortgage Money," and the chairman was Addison K. Barry, a member of the MBA Educational Committee.

First speaker was Dr. Roger F. Murray, Associate Dean of the Graduate School of Business, Columbia University, who discussed the Supply of Savings for Mortgage Investment.

Supply of Savings

Commenting on the outlook, Dr. Murray said "The supply of savings for mortgage investment in 1956 is virtually certain to be at a near-record level. The principal sources of such funds, savings and loan associations, life insurance companies, commercial banks, and mutual savings banks, should have at least as much new money to invest as in 1955. Last year about 88 per cent of their asset growth went into mortgages, and in view of existing yield relationships and other factors we would be justified in anticipating that this year almost as high a proportion of their new money will find its way into the mortgage market."

Dr. Murray cited some statistics concerning postwar institutional mortgage lending. He pointed out that from December 31, 1945 through the end of 1955 the savings and loan associations increased their mortgage holdings by $26.8 billion, life insurance companies by $22.7 billion, commercial banks by $16.3 billion, and mutual savings banks by $13.1 billion. The resultant per cent of assets in mortgages by each group, as of the end of 1955, was as follows: savings and loan associations, 85.1; life insurance companies, 32.1; commercial banks, 45.4; and mutual savings banks, 55.6.

Using these statistics, Dr. Murray deduced, "It is obvious that savings and loan associations cannot increase further their degree of concentration in mortgages; but life insurance companies, with the proportions now up to 32 per cent from the postwar low of 14.8 per cent, have room to build volume substantially if they are to restore the 40 per cent ratio of the 1920's. While there are no rigid limits to mortgage portfolios in banking institutions, many commercial bankers feel that if they carry 50 to 60 per cent of savings deposits in mortgages they have about the right proportion. Some mutual savings banks have gone well above the historical 65 per cent level; but there is still a widely held view that the traditional figure approximates the appropriate place for mortgages in institutions which retain responsibility for their own liquidity requirements. On these bases, a slowdown in the rate of accumulation for bank-held mortgages seems probable in due course."

New Sources of Funds

Dr. Murray next evaluated three other new possible sources of mortgage funds which he felt might enter the market in an important way. They were corporate trusteed pension funds, employee retirement funds of state and local governments and union welfare funds.

Dr. Murray said, "I can see no reason why the volume of real estate investments by pension funds should not grow to several billion dollars during the next decade. I believe that the growth will be very slow until the forms of the instruments for real estate lending and investing are more closely adapted to the needs of this type of investor."

He saw the necessity of some revisions in state laws in order to facilitate widespread mortgage lending from the various public funds, but he felt there should be no real difficulty in having such legislation passed. He felt, however, that as a practical matter many union funds would be disqualified as a logical market for mortgages, because a high degree of liquidity is required.

Dr. Murray concluded by saying, "The substitution of these new sources for a portion of the very high acquisition rate of present lenders will not add to the total supply of savings for the mortgage markets, but it may well offset the decline taking place in their new lending as they gradually finish the postwar build-up in mortgage portfolios. There appears, therefore, to be no serious obstacles to an adequate savings flow which are not amenable to elimination by aggressive efforts and ingenuity of mortgage bankers plus, I would emphasize, good rates of return."

Dr. George Cline Smith, economist of the F. W. Dodge Corporation, made "An Analysis of the Demand for Mortgage Funds." He opened by lamenting the lack of adequate up-to-date meaningful statistics of the type that might be used to predict possible future construction demand.

"On the basis of what figures we have, it is impossible to tell how large the single family mortgage business is, because one to four family units are lumped together. It is impossible to get a total for residential property, because apartments are lumped with commercial. It is impossible to get a total for mortgages on commercial or industrial property because no distinction is made between the two, and both are combined with apartments. And for any or all classes, it is impossible to distinguish mortgages on new construction from mortgages on transfers."

No "Formation" Figures

He was particularly critical of the popular household formation theory of housing demand. He felt that most of its proponents were likely unaware of it, but the fact was, there *are no* annual household formation figures. He pointed out that not only were the figures given by the census bureau compiled on a sample basis and thus subject to a large sampling error, but that these total household formations figures are then compared with non-farm housing starts.

Dr. Smith then treated the group to a fascinating study in statistical manipulation. He showed that depending on how you compared the data, the housing activity in 1955 was either 4 per cent below—or 4 per cent, 39 per cent or 200 per cent above the housing activity of 1925. He stressed the fact that during the many depression and war years of the past three decades, a decided deficit in housing construction was compiled, and although he knew of no good measure of the deficit, he felt it could reasonably be argued that it has not yet been made up.

In addition to this possible deficit, Dr. Smith contended that it is questionable whether or not we have built houses in sufficient numbers to take care of the increased demand due to the growth of population. He cautioned that, "The market for new

housing is influenced by many factors, including population growth, construction of housing, rising standards of living and population movement, and there is no simple way to combine these factors into a measure of demand for housing."

Outlook for Next Decade

For the actual prediction of 1956 construction demand, Dr. Smith used Dodge Corporation figures. It is estimated by Dodge that housing starts in 1956 will be around 1,190,000, down about 10 per cent from 1955. However, because houses are tending to become larger and more expensive, the drop in physical volume (floor area) will be about 8 per cent, and dollar volume will be down only about 6 per cent. For the long run, Dr. Smith predicts 12 to 13 million starts as a minimum figure for the next decade.

The Dodge forecast is for a 6 per cent increase in physical volume of commercial building in 1956, and perhaps a slightly larger increase in dollar volume; while industrial building is expected to increase about 12 per cent in 1956.

Dr. Smith's final conclusion was that the basic demand for mortgage money in 1956 will be a few percentage points lower than in 1955, although it will remain at very high levels.

The Wednesday afternoon session was conducted by William A. Clarke, MBA past president. The speaker was Dr. Gordon W. McKinley, director of Economic Research for the Prudential Insurance Company of America, whose remarks appear elsewhere in this issue.

After the luncheon meeting, the group returned to the Law Lounge in Vanderbilt Hall, where J. Maxwell Pringle, member of the MBA Educational Committee introduced the topic, "Government Controls and Mortgage Credit." Mr. Pringle first called on Dr. Roy L. Reierson, vice president, Bankers Trust Company, who talked on "Federal Reserve Policy and Mortgage Credit." Then the group heard from W. W. McAllister, Chairman of the Federal Home Loan Bank Board, who discussed "The Home Loan Bank Board and Mortgage Credit."

Dr. Reierson pointed out that a Federal Reserve policy of credit restraint is never popular regardless of the circumstances under which it is imposed. On the other hand, their easy credit policies find ready and widespread approval. However, he feels that at certain times, under certain conditions, credit restrictions are essential to the well being of our economy. Dr. Reierson charged the mortgage bankers with the responsibility of helping to bring public support to the credit policies of the Federal Reserve.

"Unless we want to have instability develop in our economy," he said, "the Federal Reserve must be free to use either side of its credit weapon, even if it does, on occasion interfere with the availability of mortgage credit."

Fed Policies Were Wise

Dr. Reierson indicated his feeling that the Federal Reserve credit restrictions couldn't have been unduly severe in 1955, since the increase in mortgage debt during that year was the highest in history, and the commercial banks, which are most susceptible to Federal Reserve credit policy were able to provide a record $3¼ billion for real estate in 1955.

He cited the 1954 and early 1955 practices of early commitments as one major cause of the credit squeeze, although he acknowledged the 1953-54 Federal Reserve credit policy had had its effect. In predicting the possible Federal Reserve credit policy for 1956, Dr. Reierson sees a policy of continuing restraint, with possible changes in policy, moving concurrently with changes in the economy. His personal guess is that the current boom will level off, consequently we have seen the tightest credit that we will have in the current cycle. In conclusion, Dr. Reierson stated his strong feeling that realistic attainable construction goals should be set so as not to upset the economy. He feels that 1.5 to 2 million homes per year is entirely unrealistic and would bring disequilibrium to the economy. Attempting to build 1.5 million housing units in 1956 would reduce by 15 per cent funds available for industrial and commercial construction. He felt that very likely a great savings shortage would result even if we try to produce 1.3 million housing units per year, at this time.

Savings and Loan View

Mr. McAllister said that finding the excessive use of credit highly inflationary and very dangerous, the F.H.L.B. in September, after a warning in mid-July, required savings and loan associations to limit new mortgage lending to their savings and mortgage loan repayments, and limit further borrowing from the F.H.L.B. to prior commitments and for emergencies only.

In December, the board eased the credit restraints to permit the associations to increase their borrowing by 5 per cent of their savings capital up to an outstanding total not to exceed 10 per cent of their savings capital. Mr. McAllister claimed he found the effect of loosening restraints largely psychological. Associations at 1955 year-end used $300 million less credit than anticipated. Although the 5 per cent easing amounted to about $1.1 billion, it had produced no demand for additional credit. Mr. McAllister went on to say "The built-in stabilizers in our economy, and the type of monetary controls we have, lead me to feel that there is now little danger of rampant inflation.

"There is a substantial difference between the number of housing units for which we have a social need and the amount of housing the country can provide from an economic standpoint," Mr. McAllister continued. "Under existing conditions, if we tried to sustain in excess of 1.2 million units per year, with the balance of the economy continuing at its present level of production, we simply wouldn't be able to do it. We wouldn't have available the labor or the materials, and we certainly wouldn't have the funds. In the course of time, we can exceed 1.2 million units. Perhaps we will build two million units by 1965. I think we will have a balance between the available credit and the demand in a reasonable time."

Thursday morning's topic was "The Diversion of Savings from the Mortgage Market." Chairman was Guy T. O. Hollyday, a past President of MBA. Dr. Martin Gainsbrugh, an Adjunct Professor of Economics, and chief economist, The National Indus-

trial Conference Board, spoke on "Consumer Spending and the Trend of Savings."

Dr. Gainsbrugh pointed out that it is hazardous to speculate about the shape of the business curve in 1956, because the various key series are not all moving together. Some are up and others are down. He feels it is unsustainable, however, to suggest a 1956 recession on the basis of a so-called abnormally high 1955. Actually, Dr. Gainsbrugh claimed 1955 was a year of major American recovery, but its rate of increase was not extraordinary. In fact, since mid-1953, we have had no per capita expansion at all. Today the growth of national output, industrial production and personal consumption are all three in keeping with their past secular trend.

Dr. Gainsbrugh said "To me personal consumption is a strong sustaining factor in appraising trend in the economy in 1956, but not the expansionary factor that it was in 1955. Personal savings in contrast in 1956 become an increasing expansionary factor rather than a neutral or negative factor, as they were in 1955."

Dr. Jules I. Bogen, Professor of Finance, NYU, examined "The Stock Market and Future Mortgage Demand."

Dr. Bogen began his comments by admitting the group would be entirely justified in asking, "What in blazes has the stock market to do with mortgage banking?"

"Nevertheless, I think," he said, "the stock market has a great deal to do with your business and may have a lot more to do with your business in the future. Let me tell you why. I think the chief reason for the present condition of the mortgage market and of building in general, is a shortage of savings, and I think this shortage of savings is real and it is going to increase."

Dr. Bogen pointed out that the current tight mortgage market has been commonly attributed to a lack of demand for homes. However, he feels that with these easy terms, very little down payments, long period over which to pay the mortgage, plus the other stimulating factors in the economy, we could sell 1.3 to 1.4 million homes right along for the country as a whole. He further stated his disbelief that the present situation is due to any action of the Federal Reserve System. Since commercial banks, the institutions most sensitive to Federal Reserve policy bought far more mortgages in 1955 than ever before, he felt we couldn't logically blame the situation on them.

"When we look at the supply and demand situation in the mortgage market," Dr. Bogen said, "the statistical evidence is overwhelming. In 1955, outstanding mortgage debt increased by $4½ billion more than in 1954, but the savings available to buy mortgages were about the same in 1955 as in 1954. However you call it, you are short about $4 billion, and that is the trouble with the mortgage market and that is the situation in the building industry today. Furthermore, this shortage of savings is likely to become more acute, rather than less acute, because looking ahead into the 60's we have a bulge in family formations. Therefore, I think the basic problems before mortgage banking, looking ahead for some years, are these: *First,* that you must be concerned with discouraging a diversion of savings from mortgages to rival investment media, and your most vigorous rivals are equities. *Second,* you must try to divert new streams of savings into the mortgage market.

"The chief way to broaden the market for mortgages in the future is to induce pension funds and eleemosynary institutions to increase their mortgage holdings chiefly at the expense of bonds, corporate bonds, state and local bonds, and to some extent at the expense of equities."

Dr. Bogen concluded by warning, "The chief threat to the market for mortgages today is the diversion of personal savings from thrift institutions into the purchase of equities. Therefore, the chief task before mortgage bankers is to sustain our thrift institutions, to help them solve their problems, to avoid heavy taxes on savings, to help them liberalize their branch powers, help them to serve the saver better so that they can compete more vigorously with the chief threat to your market."

The final session on Thursday afternoon took the form of a combined luncheon and workshop. The workshop concept was a new idea being tried for the first time. It was inaugurated in response to suggestions from past Conference attendees. On the first night of the conference some 18 members were handed envelopes containing a list of workshop questions. As the Conference progressed they indicated their preference, as to question topic, and were assigned a table number and a co-chairman. During the luncheon on Thursday, the bankers at each individual table discussed possible answers to the question assigned to their particular table. After the completion of lunch, the moderator, Professor Raymond Rodgers of NYU, instigated the discussions. First, he read the question, then called the appropriate chairman to the head table microphone to report on his group's consensus regarding its solution. After the Chairman had stated his group's suggested answer, questions and comments were accepted from the floor.

Remarks, from various members of the group after the workshop meeting, were generally very favorable. It was felt that the basic idea had definite possibilities for future development.

In retrospect, the most outstanding feature of the whole Conference was its integrity, if a Conference can be said to have integrity. No attempt was made by the speakers to flatter the mortgage banking group. No attempt was made by the speakers to tailor their remarks to the temper of the audience. The speakers presented their material in a frank, straightforward manner, not always painting a rosy picture. Time and again in the question-answer periods, mature and deliberate consideration was given by the bankers to areas of discussions that could certainly be unpleasant to them.

Above all, one thing seemed positive: the bankers had not come to the New York Conference to listen to platitudes, nor had they come to receive accolades for past successes. They had come to learn the hard economic facts concerning mortgage banking prospects for 1956. They had come to get realistic basic material which could be used in formulating intelligent mortgage banking policies for 1955. And, it might be added, it appeared most of them felt they got what they came for.

Oklahoma's School of Mortgage Banking

The success of MBA's comprehensive program in more and better training for those in the mortgage industry has inspired similar efforts in local associations throughout the country. The latest development is the inauguration of the Oklahoma School of Mortgage Banking, an effort which, in its recent initial session in Oklahoma City, more than proved its right to the name of School of Mortgage Banking. Sponsorship was by the Oklahoma Mortgage Association, one of the oldest local or regional mortgage groups.

The idea of sponsoring such a school was originally conceived by C. Ellis Hunt, vice president of Chandler-Frates Company, and was subsequently turned over to a steering committee consisting of R. M. Karns, vice president of Home Mortgage & Investment Co., chairman, Nathan S. Jarnigan, Jr., assistant vice president, T. J. Bettes Company, Carl Geiser, cashier, American Mortgage & Investment Company and J. J. Hohl, vice president, Oklahoma Mortgage Company.

To promote individual participation and to give as complete coverage to the subject matter as possible, instruction was carried on principally in a series of seminar groups consisting of twenty to thirty persons each.

The meetings were begun on each of the two days with a general assembly of the group for an invocation, an address of welcome by W. F. Friman, president, The Oklahoma Mortgage Association, and a talk about the mortgage banking industry. Students then retired to the various seminar groups which were presided over in each case by at least two persons well versed on the subject under discussion.

These discussion areas included:

Origination—various means of soliciting mortgage loans from builders, real estate men, brokers, and individuals;

Processing—procedures and documents required for the initial application up to the point where the loan would be referred to the closing department;

Closing—Various items required as well as the information to be given to the borrower at time of closing to make the servicing job easier;

Sales to Investors—various means of submission and delivery to the permanent investor as well as interim financing;

Cashier Department—small hand operation to the large mechanized operation, from receipt of the money over the counter or through the mail to actual deposit;

Collections—means of exerting collection effort from the initial notice through various types of form letters, individually dictated letters, wires, personal interviews, up to regulations governing default notices and prosecution of foreclosure suits;

Accounting—procedures from the deposit as made by the cashier section through its various channels in both large and small companies to the point of ledger sheet posting and funds remitted to the investor;

Insurance and Escrow Analysis—procedures and details for checking new policies, payment of annual renewal premiums, handling of substitutions and other insurance details, as well as duplicate discussion of the escrow analysis as applicable to the tax account;

Taxes and Escrow Analysis—all types of taxes effecting real estate as well as the various systems for ascertaining and making payments of taxes, and the various means of tax escrow analysis;

Systems and Procedures—detailed analysis of a forms control program and work simplification program, plus a presentation of various new techniques and equipment.

In conjunction with the school was a Machines and Methods Exhibit participated in by various equipment companies.

A total of 251 persons attended, representing 57 per cent of the employees of all member companies in Oklahoma. From reactions of this group, it would seem that employees gained a better understanding of the mortgage industry in general, and from it an alliance with employees doing similar work in other companies.

The Sterring Committee has recommended that this activity become an annual affair and that some type of certificate be awarded.

›› AT THE OKLAHOMA CITY MEETING: Front, left to right, J. J. Hohl, vice president, Oklahoma Mortgage Co.; Carl Gieser, cashier, American Mortgage & Investment Co.; R. M. Karns, vice president, Home Mortgage & Investment Co.; Nathan Jarnigan, Jr., assistant vice president, T. J. Bettes Co.; Mitchell Baker, manager, accounting department, American Mortgage and Investment Company; and Charles Cummings, assistant vice president, T. J. Bettes Co.

Rear, left to right, Fred Smith, office manager, Ellis-Nicholson & Cramer; E. M. Hite, assistant secretary, Midwest Mortgage Co.; Kenneth W. Alexander, collection manager, Selected Investments Mortgage Co.; Ray Lloyd, field representative, Oklahoma Mortgage Co.; Albert Mager, Jr., secretary-treasurer, Mager Mortgage Co.; Gerald Kennedy, assistant secretary, Realty Mortgage & Sales Co.; Harold Kopp, FHA; and Charles Beaty, manager, Selected Investments Mortgage Co.

Next on Agenda Is Series of Clinics Devoted to Mortgage Loan Servicing

With MBA's Chicago Midwestern Mortgage Conference completed, the next group of events in the Association's 1956 schedule is the new series of Mortgage Servicing Clinics, three of which are in March and one in May. The program is

» Chicago, March 12, La Salle Hotel.

» Washington, D. C., March 14, Hotel Statler.

» Nashville, March 16, Andrew Jackson Hotel.

» Seattle, May 17, Olympic Hotel.

These meetings represent a real opportunity for the MBA member firms wishing to take advantage of every development and innovation in the fields of accounting, mortgage servicing, collection experience, insurance and other aspects of the internal operation of a mortgage firm. The Clinics are under the direction of W. James Metz, MBA Controller and Director of Accounting and Servicing and Edward J. DeYoung, assistant MBA Director of Accounting and Servicing. They are all one day meetings—but full sessions.

The Mortgage Servicing Clinics are largely designed for a segment of the MBA membership which, until now, has not been served in the way these clinics are designed to do. While everyone actively engaged in mortgage lending and investing will find the Servicing Clinics profitable and worthwhile, it is the servicing personnel which will profit most. So, a good suggestion for every member is: if you are attending the Clinics and Conferences during this first half of 1956, don't fail to send some of your servicing staff to one of these four Servicing Clinics. They are sure to be amply rewarded by the time and effort expended—and your business will profit in proportion.

Detailed programs for the March Servicing Clinics have been sent to members and the one for Seattle will be available shortly. If any member firm has not received these programs, please contact the headquarters office.

Coming Up April 5-6 Is Clinic in Richmond with an Excellent Program

Following the first three mortgage servicing clinics in March and the newly established Southern Methodist University Senior Executives Conference, the MBA's schedule of 1956 events turns southward, first

» To Richmond for the first Southeastern Mortgage Clinic April 5 and 6, then

» To Atlanta for the Southern Mortgage Conference April 9 and 10.

This is the first time the Association has met in Richmond since earliest days of its organization and Atlanta will be the third city where MBA is sponsoring its major regional meetings.

Coleman A. Hunter is chairman of the local Richmond committee and his group includes T. T. Hyde, III, First Mortgage Corporation, Richmond; I. Norris Blake, Mortgage Investment Corporation, Richmond; W. A. Charters, Investment Corporation of Norfolk; H. E. Peterson, Life Insurance Company of Virginia, Richmond; and W. W. McCollum, W. W. McCollum, Inc., Arlington.

The Richmond Clinic occupies almost two full days of concentrated discussion of current mortgage problems, including forward commitments and interim financing, nation-wide market for FHA and VA loans and operating and servicing problems. Among the speakers are W. Harry Schwarzschild, Jr., president, Central National Bank, Richmond and president, Richmond Chamber of Commerce; Howard F. Sunshine, vice president, Manufacturers Trust Company, New York; Clifford C. Boyd, vice president, Institutional Securities Corporation, New York; Martin R. West, Jr., vice president, Weaver Bros., Inc., Washington, D. C.; J. Maxwell Pringle, president, Pringle-Hurd & Co., Inc., New York; Dr. Paul D. Sanders, Editor, The Southern Planter, Richmond; Colgate W. Darden, Jr., president, University of Virginia, Charlottesville; Philip N. Brownstein, director, Loan Management and Liquidation Service, Veterans Administration, Washington, D. C.; Thomas C. Boushall, president, Bank of Virginia, Richmond; Charles W. Williams, vice president, Federal Reserve Bank, Fifth District, Richmond and Esmond B. Gardner, vice president, Trust Department, The Chase-Manhattan Bank, New York.

Richmond Mortgage Bankers Association is sponsoring a reception for the guests and other events are planned.

Conference in Atlanta in April

Based upon plans now nearing completion, MBA will hold this year what is likely to be its largest regional meeting in the South, its Southern Mortgage Conference, Dinkler Plaza Hotel, Atlanta, April 9-10. The meeting is being preceded on Saturday, April 7, with the Spring meetings of the MBA Executive Committee and Board of Governors—first time in the South since the convention in Miami Beach. One of the most impressive programs in the MBA schedule in 1956 is being presented in Atlanta.

Among the speakers and their subjects include

Earl B. Schwulst, president, The Bowery Savings Bank, New York, on the role of savings banks in future mortgage lending;

Hon. John B. Sparkman, Senator from Alabama, on the government's fiscal policy and its effect on mortgage financing;

King Upton, vice president, First National Bank of Boston, Massachusetts, on interim financing of closed mortgages and long term forward commitments, and

Norman Carpenter, vice president, Metropolitan Life Insurance Company, New York.

A number of panel discussions are on the program. One is on management succession in small and growing enterprises, with W. A. Clarke, presi-

dent, W. A. Clarke Mortgage Co., Philadelphia, moderating. Participants include

MBA President Lindell Peterson and president, Chicago Mortgage Investment Company;

John F. Austin, Jr., MBA vice president and president, T. J. Bettes Company, Houston;

James W. Rouse, president, James W. Rouse & Co., Inc., Baltimore and

Brown L. Whatley, president, Stockton, Whatley, Davin & Company, Jacksonville, Florida.

Another is on conventional loans, including income properties, with B. B. Bass, president, American Mortgage and Investment Company, Oklahoma City, moderating. Participants include

John C. Hall, president, Cobbs, Allen & Hall Mortgage Company, Inc., Birmingham;

Wallace Moir, president, Wallace Moir Company, Beverly Hills, California;

Perry S. Bower, assistant general manager and treasurer, The Great-West Life Assurance Company, Winnipeg, Canada and

George H. Dovenmuehle, president, Dovenmuehle, Inc., Chicago.

A third panel is on the status of the government's sponsored programs, with Samuel E. Neel, MBA general counsel, as moderator. Participants include

Edwin G. Callahan, chief counsel, Home Mortgage Section, Federal Housing Administration, Washington, D. C.;

Thomas J. Sweeney, assistant deputy administrator, Loan Guaranty, Veterans Administration, Washington, D. C.;

Frank H. Greer, agency manager, Federal National Mortgage Association, Atlanta;

Arthur W. Viner, executive secretary, National Committee, Voluntary Home Mortgage Credit Program, Washington, D. C. and

Frank M. Ewing, deputy assistant secretary, Department of Defense, Washington, D. C.

Other speakers will include President Peterson on how the mortgage business looks today and Frank J. McCabe, Jr., MBA assistant secretary and treasurer on "Make MBA a Partner in Your Business."

Robert Tharpe, president, Tharpe & Brooks, Inc., is chairman of the Conference Committee and co-chairmen are Jack Adair, president, Adair Realty & Loan Company and Donald K. Vanneman, president, Etheridge & Vanneman, Inc.

The Atlanta Committee has planned a number of interesting social events for those who attend. There will be a barbecue for all registrants at a resort near Smyrna, Georgia, with the Life Insurance Company of Georgia as host and entertainment by the Big Bethel Choir. For the ladies there will be a fashion show at Atlanta's largest department store, Rich's, on Tuesday morning. Arrangements for golf at Atlanta's three largest country clubs have been made and a system of tours is planned for those attending the Conference.

MBA Second Senior Executives Meeting To Be Inaugurated at SMU March 18-20

On the 11th anniversary of the organization of the oldest section of MBA's educational program—the MBA-NYU Senior Executives Conference in New York—the Association is establishing its second meeting in this field, the Southwestern Senior Executives Conference at Southern Methodist University in Dallas, with the initial session scheduled for March 18-20.

As at NYU, the Conference is designed in the nature of an "economic retreat," a place and occasion where members at the management and administrative level may gather for a brief and concentrated study of the broad trends underlying the economy. It is the appreciation of these broad trends which lead to an easier understanding of the immediate problems facing mortgage men in their day-to-day decisions.

To preserve the easy informality of the academic atmosphere attained at the NYU Conference, attendance will be limited to 120.

In reviewing applications, the Admissions Committee will consider experience in mortgage banking, position in firm, experience as a senior executive, and priority of application. To admit as many MBA member firms as possible, application for only one representative per firm—at the senior executive level—should be submitted.

Under the general theme, "Economic Factors Affecting Today's Mortgage Market and Money Supply" the Conference will open Sunday evening, March 18, 1956, with a dinner at the new Statler-Hilton Hotel with President Lindell Peterson as toastmaster. The conferees will hear a word of welcome from Mayor R. L. Thornton of Dallas, comments by Dr. Willis M. Tate, President, Southern Methodist University, Dallas, and introductory remarks by Dr. Laurence Fleck, Dean, School of Business Administration, Southern Methodist University.

Principal speaker for the evening will be Robert B. Patrick, Financial Vice President of Bankers Life Company, Des Moines, who will provide "An Insight Into The Supply of Mortgage Funds for 1956 and The Elements Which Affect This Supply." Prior to the opening dinner, the Texas MBA will sponsor a reception for all conferees.

The second session will open on Monday morning, March 19, 9:30 A.M., at the Fincher Memorial Building on SMU campus with the general topic of "How Severe Is the Shortage of Mortgage Money?" under the Chairmanship of Carey Winston, Chairman, MBA Educational Committee, and President, The Carey Winston Company, Washington, D. C.

Speakers for the second session will be Dr. Arthur Smith, Economist, First National Bank, Dallas, who will discuss "Adequacy of Savings for Mortgage Investment"; Dr. George Cline Smith, Economist, F. W. Dodge Corporation, who will discuss "Analyzing the Demand for Mortgage Funds"; and President Peterson, who will discuss "The Changing Interest Rate Pattern."

At the luncheon meeting on Monday, John F. Austin, Jr., MBA Vice President, and President, Texas MBA, will act as toastmaster, and Dr.

Scene of MBA's second Senior Executives Conference, at SMU in March

Harold W. Torgerson, Professor of Finance, Northwestern University, will discuss "The Impact of Monetary Controls on Mortgage Lending."

During the afternoon session Monday, at 2:15 P.M., conferees will take a look at "The Effect of Government Controls on Mortgage Credit." Aubrey M. Costa, MBA Past President, and President, Southern Trust and Mortgage Company, Dallas, will act as Chairman; Dr. Watrous H. Irons, President, Federal Reserve Bank of Dallas, Dallas, will discuss "Federal Reserve Policy as Related to Mortgage Credit"; and Chairman W. W. McAllister, Federal Home Loan Bank Board, Washington, D. C., will tell us "How Activities of the Home Loan Bank Board Affect Mortgage Lending Today."

Under consideration in the fifth session Tuesday, March 20, 1956 at 9:30 A.M., will be the topic "The Diversion of Savings from the Mortgage Market" with Jerry B. Frey, Jr., Member of the MBA Educational Committee and Partner, Brown-Frey Mortgage Company, Dallas, as Chairman.

Dr. G. Rowland Collins, Dean, Graduate School of Business Administration, New York University, will discuss "Current Consumer Spending as it Affects the Supply of Mortgage Money," and Dr. James C. Dolley, Vice President for Fiscal Affairs, University of Texas, Austin, will tell us "How Stock Market Investments are Currently Affecting the Supply of Mortgage Money."

The final session, a luncheon meeting, will be conducted by Dr. Roy L. McPherson, Professor and Chairman, Department of Finance, Southern Methodist, acting as toastmaster. This session will feature Dean Arthur Weimer, School of Business, Indiana University, who will discuss "Political Factors Currently Affecting the American Economy and the Money Supply." The Conference will conclude with summarizing remarks by Dean Laurence Fleck of the School of Business Administration.

Rooms for those attending the Conference will be available at the new Statler-Hilton Hotel in Dallas.

Special buses, providing free transportation to and from the campus of SMU, will be available all through the session. Facilities at SMU include accommodations in the new Fincher Memorial Building for the lecture session, and the Ballroom of the new Lee Student Center for the luncheon meetings. Representing SMU in the presentation of this Conference are Dr. Laurence H. Fleck, Dean, School of Business Administration, and Dr. Roy L. McPherson, Professor of Finance, School of Business Administration. Representing MBA in the planning and presentation of the Conference, are Lindell Peterson, President; John F. Austin, Jr., Vice President; George H. Patterson, Secretary-Treasurer; Carey Winston, Chairman, MBA Educational Committee; Frank J. McCabe, Jr., Assistant Secretary-Treasurer; Jerry B. Frey, Jr., Partner, Brown-Frey Mortgage Company, Dallas, Texas; Dr. Arthur Smith, Economist, First National Bank, Dallas; Aubrey M. Costa, Past President, MBA, President, Southern Trust and Mortgage Company, Dallas, Texas; Alvin Soniat, Vice President, J. E. Foster and Son, Inc., Fort Worth, Texas.

Also F. L. Flynn, President, Flynn Investment Company, Harlingen, Texas; Marvin Watson, Vice President, The Richard Gill Company, San Antonio, Texas; M. J. Mittenthal, President, N. E. Mittenthal & Son, Inc., Dallas, Texas; J. DuVal West, Partner, Jones-West Mortgage Company, Dallas, Texas; R. P. Russell, Vice President, T. J. Bettes Company, Houston, Texas; J. W. Link, Jr., Executive Vice President, American General Investment Corporation, Houston, Texas; James E. Klaver, Executive Vice President, Mortgage Investment Corporation, San Antonio, Texas; Donald S. McGregor, Executive Vice President, T. J. Bettes Company, Houston, Texas; and Lewis O. Kerwood, MBA Director of Education and Research who is responsible for the overall direction.

Formal announcement with program schedule and application for admission have been previously mailed to the general membership and, it is anticipated that, as at New York University, the demand for registration will be heavy.

Educators Meeting at University of Colorado

Still another event has been added to the MBA 1956 schedule, the second Educators Conference, following up the one at the University of Michigan in 1955. This year it will be at the University of Colorado in Boulder July 16-17. Again, as last year, the sponsorship is by the MBA Educational and Research Trust Fund and the objective is to gather together, for a brief period, deans of college and university business and commerce schools and faculty members for a discussion, by mortgage men, of the economics of the mortgage industry. This is the effort upon which the Trust Fund has embarked to create a better understanding in the halls of higher education of the mortgage industry, show how it functions and its vital importance in the economy. The results, it is hoped, will accomplish many things. Younger people will receive a better understanding of what a career in mortgage banking can offer them.

California MBA Has a Top Flight Program for Convention March 1-2

Mortgage bankers of national prominence are featured on the program which has been arranged for members of the California MBA attending their annual Convention March 1 and 2 at Hotel del Coronado on Coronado Island across the bay from San Diego. Discussions of matters of current interest to mortgage bankers make up the agenda, including talks from several viewpoints concerning the status of the mortgage market, availability of funds and what might be anticipated for interest rates. Other speakers will cover appraisal practices and legal pitfalls in making construction loans.

Heading the list of speakers who will participate is Lindell Peterson, Chicago, MBA President. Others are Earl B. Schwulst, New York, President, The Bowery Savings Bank; Robert B. Patrick, Des Moines, Financial Vice President, Bankers Life Company; Rear Admiral C. C. Hartman, San Diego, Commandant 11th Naval District; Jesse W. Tapp, Los Angeles, Chairman of the Board, Bank of America; William A. Marcus, San Francisco, Senior Vice President, American Trust Company; Lawrence L. Otis, Los Angeles, Vice President and Chief Counsel, Title Insurance and Trust Company; L. Douglas Meredith, National Life Insurance Co., Montpelier, Vt.; and Keith W. Brownell, Glendale, MAI.

An interesting feature will be a panel discussion by young men of the Association on "The Care and Feeding of Young Mortgage Bankers." James Phelps, San Francisco, will moderate a panel comprised of Roger C. Olson, Berkeley, CMBA Treasurer; F. K. Duhring, San Francisco; Guy H. Hayes, Los Angeles; and John C. Opperman, Los Angeles.

Wallace Moir, Beverly Hills, Immediate Past President of MBA, heads a panel discussion of "Trends in Conventional Loan Financing." Participating in the discussion with Mr. Moir as panel members are Silas O. Payne, San Francisco; William R. Schroll, Los Angeles; Robert Sutro, Los Angeles; and Linden L. D. Stark, San Francisco.

Urban K. Wilde, CMBA President, will preside at the general sessions of the conclave. Mr. Wilde announces that registrations have been received from Association members from all parts of the State and that many members will be accompanied by their principals. Investors from all parts of the country have been invited to attend.

George Gummerson, Los Angeles, Vice President, Title Insurance and Trust Company, is Chairman of the Committee in charge of arrangements. He is assisted by Norman E. McFadden, San Francisco, Co-Chairman; James P. Alger, San Francisco; Thomas M. Murphy, San Francisco; Hal G. Whittle, Los Angeles; Frank Ely, Los Angeles; Martin A. Frazier, San Diego; Guy Mize, Los Angeles; Ward D. Armstrong, San Francisco; G. W. Petersen, Los Angeles; Spence W. Bugbee, Los Angeles; Rome Moretti, San Francisco; Eugene S. Fox, San Francisco; and Malin Burnham, San Diego.

Other CMBA Officers and Directors who will take an active part in the event include Willis Bryant, San Francisco, Vice President; Gordon Stimson, Beverly Hills, Secretary; Walter R. Clark, Los Angeles; Kirk Whitehead, San Francisco; John J. Lyman, Los Angeles; E. W. Muhsfeld, Los Angeles; Wilbur F. Warner, San Francisco; F. H. Champlin, Los Angeles; C. C. DeWitt, Jr., Oakland; and Ewart W. Goodwin.

It is a tradition with California MBA that wives of members attend their functions and participate in the many extra curricular activities of the meeting. Numerous special events are planned for the wives.

Sam Fleming Named Head Arkansas MBA

Sam Fleming, general manager of the Arkansas branch of the T. J. Bettes Co., has been elected president of the Arkansas MBA and R. S. Del Donno, general manager of the Charles F. Curry Co., was elected vice president. Gene Carroll, assistant treasurer of The Guardian Co., was elected secretary-treasurer.

This Association was recently reorganized and is now an active group. At its recent meeting members held a panel group discussion of prospects for 1956 and the consensus was that we are facing another banner year. Members of the panel were Zack Wood, Union National Bank; Fred Burton, manager of Federal Reserve Bank, and Guthrie King, head of Arkansas Loan Department of Prudential Insurance Co.

Robin Brown Is New Ft. Lauderdale Head

Robin Brown has been elected president of the Fort Lauderdale, Florida MBA. New vice president is John M. Thompson, Jr., manager, Lon Worth Crow Company and new secretary is Ted Stephan, of the same institution.

New Members in MBA

ALASKA, *Anchorage:* National Bank of Alaska, R. G. Laube, assistant cashier.

CALIFORNIA, *San Bernardino:* Wilson Mortgage Company, George S. Wilson, president; *Santa Ana:* The Commercial National Bank of Santa Ana, Lee J. Hasenjaeger, executive vice president.

COLORADO, *Denver:* United States National Bank of Denver, Neil F. Roberts, executive vice president.

FLORIDA, *Fort Lauderdale:* Lon Worth Crow Company, John M. Thompson, Jr., manager; *Jacksonville:* Insurance Company of the South, Raymond K. Mason, president.

HAWAII, *Honolulu:* Theo. H. Davies & Co., Ltd., G. C. Davies, vice president.

IDAHO, *Boise:* Construction Finance Company, W. L. Johnson, vice president and manager.

ILLINOIS, *Chicago:* A. W. Bremer; Marquette National Bank, Anthony C. Duvall, vice president; *Rock Island:* Modern Woodmen of America, T. A. Faulhaber, mortgage supervisor.

MISSOURI, *Warrensburg:* Citizens Bank of Warrensburg, Missouri, Adrian Harmon, executive vice president.

NEW YORK, *New York:* The Union Labor Life Insurance Co., Joseph Malzo, vice president-mortgage officer.

OHIO, *Cincinnati:* Massachusetts Mutual Life Insurance Company, Henry Bauer, manager; *Toledo:* The Kissell Company, James H. Petty, vice president.

UTAH, *Salt Lake City:* Western Realty & Insurance Co., Leon Bird, president.

WISCONSIN, *Appleton:* Amortized Mortgages, Inc.; *Madison:* Amortized Mortgages, Inc.; National Mutual Benefit, W. E. Havey, manager, mortgage loan department.

Florida MBA Meetings for Employees

Florida MBA is sponsoring a series of clinics in an effort to educate the employees of mortgage bankers. This program, under the direction of Frank W. Reed, trust officer of The First National Bank at Orlando, has included meetings at Panama City, Jacksonville, Orlando, Tampa, Fort Lauderdale, and West Palm Beach. It includes improving customer relations, underwriting the conventional loan, processing FHA and VA loans and servicing and accounting procedures.

The committee organizing the effort includes Mr. Reed, chairman; Lon Worth Crow, Jr., president, Lon Worth Crow Company, Miami; John Gilliland, vice president, Knight, Orr & Company, Inc., Jacksonville; L. K. Horn, controller, Lon Worth Crow Company, Miami; and representatives from FHA.

At the clinic at Panama City, Florida, were above, left to right, J. R. Sudduth, vice president, Sudduth Realty Company, Inc., Panama City; Lon Worth Crow, Jr., president, Florida MBA; at the rostrum, Frank W. Reed, Joseph Ball, chief, mortgage credit department, FHA, Jacksonville; L. K. Horn; and Jesse Taub, chief mortgage examiner, VA, Jacksonville.

Louis Wolfort Louisiana MBA Head

Louis P. Wolfort, Miller Mortgage Co., New Orleans, seated right, was elected president of the Louisiana MBA at the Association's annual meeting, at which MBA President Lindell Peterson made the principal talk.

Standing, left to right, are Lloyd Adams, Lawyers Title Insurance Corporation, New Orleans, elected secretary-treasurer; John Dane, Jr., Dane and Northrop, New Orleans, elected vice president; and Tyler Bland, Rapides Bank and Trust Co., Alexandria, elected vice president.

COST OF OPERATION

(Continued from page 29)

spent for these two items by the medium size companies further explain their production department deficits as shown in Table 1.

Compared to other industries, the percentage of salary expense is rather high, but not so unusual as certain of the other figures presented. Probably in no other field will you find such a small comparative amount spent for advertising purposes. Depreciation expense also seems extremely low, and the entire expense picture appears incongruous in that entertainment and travel expense exceeds either advertising or depreciation costs. We certainly would not suggest that mortgage banking costs should parallel costs of other completely different industries, but facts are brought out in Table 3 that might warrant some review of various expenditure allocations.

Table 4 shows the percentages of total income and expenses attributed to the production and servicing departments. A quick analysis of these figures reveals that the average production department, while bringing in 53.9 per cent of total income, also incurred 71.5 per cent of total expenses. The average servicing department meanwhile grossed 46.1 per cent of total income, but incurred only 28.5 per cent of total expenses. Stated another way, the net profit from servicing not only covers the net losses in production, but also represents entirely whatever total net profit was realized. These facts may prove surprising to those who have long regarded the servicing operation as merely a necessary evil by-product resulting from the efforts of originating and producing loans.

Numerous other interesting studies and worthwhile comparisons could be made from the cost data obtained in this particular survey. The more salient facts of the entire study, however, may be summarized as follows:

1. The exclusive production of mortgage loans is usually unprofitable or at best little better than a break-even operation.
2. Activity in the construction loan field is almost necessary if profit is to be realized in the production department. *(Cont'd next page)*

Biggest Building Cost

Ever since the pyramids, the greatest single building cost and the greatest building problem has been materials handling — getting heavy materials to the site and in place for erection, says a House & Home report of one of its Round Table discussions on ways to speed the mechanization of these operations.

Today the building industry moves more heavy materials than any other industry except perhaps steel; it is one of the two main supports of railroad earnings. At the homebuilding site the average builder pays $12 for the labor needed just to carry $120 worth of drywall from the street where it is unloaded into the house to the room where it will be used.

It is estimated that one-quarter of the cost of a new house goes for the expense of moving its materials, and more mechanized handling of materials could save home builders at least $1 billion a year, which would average over $750 per house, based on last year's 1,300,000 new housing starts.

"Wrong equipment and acceptance of badly loaded cars by the railroads are the two most serious obstacles to mechanized materials handling from start to finish in our industry," says the report. "This situation must be as unsatisfactory to the carriers as it is to builders, for it is costing them a large volume of freight they should not be losing. The lumber mills now ship little more than half their output by rail.

"We believe the railroads could handle more products for home building at lower rates and at a higher profit if they would provide the right equipment and then insist on proper loading for today's high freight train speeds and today's greater danger of impact damage in switching.

"Today only one lumber dealer in ten is equipped to handle unit loads; only one box car in eight has the wide doors needed for unit loads; only one producer in a hundred is equipped to package and ship unit loads; only one builder in a thousand is equipped to package and ship unit loads; only one builder in a thousand is equipped to receive unit loads.

"What becomes of the unit load saving when a producer ships dry wall or roofing in 2,000-lb packages to a dealer who cannot lift them? What saving is there (except in breakage) when 240 bricks stacked and strapped to a cardboard pallet are delivered to a builder who has to break up the load and pay the bricklayer's helper $2 an hour to carry the bricks eight at a time to the place where they will be laid?

"The question future conferences must decide is: How big and heavy should the standard unit load be?

"Until we agree on such a standard, producers will have no guide for their packaging; builders and distributors will have no guide for what size package they should buy equipment to handle."

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3. The average cost of originating a single loan is approximately $245.00.
4. The cost of servicing the average loan per month is roughly $1.37, with an accompanying profit of $1.68 per loan per month.
5. The average mortgage company spends about 75 per cent of total expense funds for salaries and interest cost.
6. Net profit for the average firm is entirely dependent upon the servicing operation.

The findings of this cost study, we hope, will serve to arouse an interest in and to evoke the realization among mortgage bankers, that a need does exist for cost accounting procedures and cost data. Corporate profits can be increased by either increasing the total volume of business, or by reducing the cost of conducting current business. The first choice is not always possible; the latter, however, is always present. But before any budgetary control is possible, the actual costs must be ascertained and studied. Cost accounting and cost data offer the only means for doing this.

The standardized system of cost accounting for mortgage bankers has been designed and is now available for members' use. We in MBA's Servicing and Accounting Department are ready to supply the system together with all necessary instructions and worksheets, to any member upon request. We are also prepared to offer all possible assistance to any company wishing to study their own costs, to establish cost controls or to install cost accounting systems.

GOVERNMENT PROGRAMS

(Continued from page 40)

has been declining. If this is so, the proportion of the debt being repaid for other reasons, such as sales of houses, has been rising rather rapidly. Leaving aside the possibility of a rise in delinquencies and a consequent reduction of amortization payments below the contractual level, what would be the effect of a decline in repayments arising out of a decline in real estate transfers? The flow of funds to mortgage investors from this source would decline, but mortgage portfolios would presumably continue at a higher level by the same amount. Would investors' decisions be unchanged, or would they feel the loss of freedom to adjust from time to time the balance of their portfolios among different types of investments? The amount of transfer activity to be financed would be smaller, but even if investors made no attempt to change the composition of their portfolios, would they make their smaller flow of mortgage funds available on unchanged terms? It is tempting to conclude that, to the extent that the net position would not change, there would be no reason for changes in the gross. Such temptations should be withstood, at least until some evidence is available that nets and grosses behave alike.

I hope it has been clear that the questions I have tried to raise here, and the topics I have suggested for study, do not assume any broad deterioration of real estate markets attributable to a general decline in economic activity. The questions arise naturally, at least to one observer, out of what little we know about real estate markets and how they are financed, and what we can guess might be further development of processes that have been under way for some time.

Manufacturers Life Insurance Company of Canada announces the appointment of **T. R. Lamon** as a Mortgage Superintendent. United States Mortgage Supervisor for the Company since 1953, he will continue to be responsible for the Company's mortgage investments in this country. He will also assume increased duties and assist L. S. Davis, Executive Officer Mortgage Investments, in the over-all direction and operation of the Mortgage Department's activities.

Mr. Lamon joined the Head Office Mortgage Department of the Manufacturers Life soon after his graduation in 1929 from Law School in Toronto. In 1948, he was appointed a District Supervisor and five years later placed in charge of the Company's United States Mortgage investments.

T. R. Lamon

Ernest Koyen

Ernest J. Loebbecke, president of Title Insurance and Trust Company, Los Angeles, announced the association of **Ernest Koyen** with the customer relations department of the firm. Well-known in the mortgage banking field, Koyen will represent the company in the downtown Los Angeles district and certain outlying areas.

Claude L. Benner, Jr., who recently joined Eastern Mortgage Service Company, Philadelphia, has been appointed assistant vice president, Nat N. Wolfsohn, president, announced. Son of Dr. Claude Benner, president of the Continental American Life Insurance Co. of Wilmington, Benner is a graduate of Syracuse University and a Marine Corps veteran of the Korean war.

Milton T. MacDonald, president, T. B. O'Toole, Inc., Wilmington, and past president of MBA, has been elected a director of The Trust Company of New Jersey. He was vice president of the mortgage department of The Trust Company from 1932-52, when he went with the O'Toole company. He is a trustee of the Teachers Insurance & Annuity Association of America.

William T. Thompson was elected second vice president, mortgages and real estate, of Home Life Insurance Co., New York.

Arthur W. Viner, executive secretary of the Voluntary Home Mortgage Credit Program, was one of the five first winners of HHFA's distinguished service awards. These honors were set up to give annual recognition to employees of HHFA and constituent agencies. Mr. Viner's recognition was for the work he has done in organizing the VHMCP.

George W. Hill has been named vice president of Housing Securities, Inc., New York, directing its bank and institutional investor service . . . **Robert A. Hoffman** has been appointed manager of mortgages of Home Life Insurance Co., New York . . . **William L. Leighly** and **Robert S. Robertson,** Chicago, have formed Leighly & Robertson, Inc., to serve as financial consultants for lending institutions and industrial companies in the analysis, negotiation and placement of long term financing . . . **Frederick W. Campbell** has been elected a vice president of First National Bank of Miami . . . **Frederick M. Dickey,** also of the bank's mortgage loan department, was elected assistant vice president.

PERSONNEL

In answering advertisements in this column, address letters to box number shown in care of the Mortgage Bankers Association of America, 111 West Washington Street, Chicago 2, Illinois.